RESULT UPDATE

INDUSIND BANK

Moving up the quality curve

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India Equity Research| Banking and Financial Services

IndusInd Bank (IIB) delivered qualitatively strong Q1FY18 performance with core operating profit moving up >33% YoY. Key positives: a) CASA: Savings growth accelerated (up >65% YoY), a reflection of evolving franchise; b) this benefitted funding cost, but IIB kept NIMs steady (at 4%) in a bid to move up the quality curve (risk weight grew 1% QoQ, while loan grew 3% QoQ); c) in line with Phase-4 target, benefits of efficiency have started to play out as cost efforts are translating; d) despite provision reversal benefits available (INR1.2bn), the bank chose to make floating provisions (INR700mn) and accelerated specific provisions, thus coverage rose to 60%; e) fee income showed mixed trend, with some seasonality in processing fees. IIB looks structurally poised to achieve its Phase-4 targets and repeat its success of earlier phases. Given strong track record, superior RoA and well-capitalised position, execution risks are minimal. Maintain 'BUY'.

Asset quality stable; move towards better rated corporate persists

While headline GNPLs rose to 1.09% (0.93% in FY17), it was largely due to slippage of 2 restructured accounts. Consequently, overall stress (GNPLs + restructured book) was broadly stable at 1.26% (1.3% in FY17). Critically, proportion of A and above rated corporate has been rising (~59% versus 52% as at FY16) leading to lower RWA/assets (<77% versus 83% in FY16), an encouraging trend. Furthermore, quashing concerns about accounts under IBC, IIB's cumulative exposure is mere INR500mn wherein the bank has adequately provided for.

Core revenue momentum, efficiency gains aid operating profitability

IIB improved core profitability with loan growth at 24% YoY, aided by secular growth across segments (corporate up 25%, non-vehicle retail up 35% YoY albeit vehicle growth was soft at 17%). This with stable NIMs and efficiency gains (C/I ratio at <46%) supported core profitability. IIB expects loan tilt towards consumer finance to start playing out in H2FY18. With diversified growth levers, we expect IIB to swiftly capitalise on recovery momentum.

Outlook and valuations: Strong execution; maintain 'BUY'

IIB has delivered yet another strong quarter. But more telling, we believe, is that it is now delivering a mix of high and stable earnings growth, strengthening balance sheet (loan coverage, moderating RWA profile) and a favourable outlook. We would argue that this mix is about as supportive as it gets for valuations and would lead IIB to the highest end of Indian private bank valuations – thus we raise our target multiple to 3.8x FY19E P/BV (earlier 3.3x), leading to TP of INR1,734 (earlier INR1,560). Maintain **'BUY/SP'**.

Financials (INR mn)

Year to March	Q1FY18	Q1FY17	*Growth %*	Q4FY17	*Growth %*	FY17	FY18E	FY19E
Net revenue	29,413	23,294	*26.3*	28,788	*2.2*	1,02,341	1,24,682	1,53,509
Net profit	8,365	6,614	*26.5*	7,516	*11.3*	28,679	36,317	44,994
Dil. EPS (INR)	13.9	10.6	*30.3*	12.5	*11.0*	47.9	60.7	75.2
Adj. BV (INR)						340.0	389.3	451.6
Price/ Adj book (x)						4.6	4.0	3.5
Price/ Earnings (x)						32.6	25.7	20.7

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: INBK.BO, B: IIB IN)*

CMP	: INR 1,561
Target Price	: INR 1,734
52-week range (INR)	: 1,572 / 1,037
Share in issue (mn)	: 598.5
M cap (INR bn/USD mn)	: 934 / 14,464
Avg. Daily Vol.BSE/NSE('000)	: 1,247.3

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	15.0	15.0	14.9
MF's, FI's & BK's	12.3	12.4	11.6
FII's	43.3	43.1	43.8
Others	29.4	29.4	29.7

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	2.2	1.2	(0.6)
3 months	9.6	5.9	7.6
12 months	38.8	15.6	26.6

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Table 1: Key takeaways from Q1FY18 earnings

(INR mn)	Q1FY18	Q1FY17	*Growth (%)*	Q4FY17	*Growth (%)*	*Comments*
Net interest income	17,741	13,564	*30.8*	16,675	*6.4*	*Broadly in line with estimates, secular loan growth and superior NIMs suggest continued momentum on the same*
Other income	11,673	9,730	*20.0*	12,113	*(3.6)*	*Mixed trend seen with some volatility in loan processing fees*
Operating expenses	13,528	10,956	*23.5*	13,065	*3.5*	*Focus to reap in efficiency benefits, aims to reduce C/I ratio by 2 percentage points over 3 years on cost benefits*
Staff expense	4,222	3,569	*18.3*	3,943	*7.1*	
Other opex	9,306	7,387	*26.0*	9,122	*2.0*	
Pre prov Op profit (PPP)	15,885	12,338	*28.8*	15,722	*1.0*	
Provisions	3,100	2,305	*34.5*	4,301	*(27.9)*	*Despite benefit of provision reversal (INR1.2bn on JPA-Ulltratech deal), bank chose to make floating provisions (INR700n) and accelarated specific provisions, thus coverage rose to 60%*
Profit before tax	12,786	10,033	*27.4*	11,421	*11.9*	
Provision for tax	4,420	3,419	*29.3*	3,905	*13.2*	
Profit after tax	8,365	6,614	*26.5*	7,516	*11.3*	
EPS (INR)	13.9	10.6	*30.3*	12.5	*11.0*	
Balance sheet (INR bn)	0.1	0.1	0.1	0.1	0.1	
Advances	1,164	937	*24.3*	1,131	*2.9*	*Move towards better rated portfolio sustained. Secular growth driven by corporate segments (up 26% YoY, working capital finance) and retail segment (up 22% YoY). While BS-IV and GST implementation fed into slower vehicle book growth (17% YoY), non-vehicle portfolio maintained traction. Bank expect loan tilt towards consumer finance to start playing in H2FY18*
Deposits	1,337	1,018	*31.4*	1,266	*5.6*	
CD Ratio (%)	87.1	92.1		89.3		
Asset quality	0	0	*0.1*	0	*0.1*	
Gross NPA	12,717	8,606	*47.8*	10,549	*20.6*	
Net NPA	5,083	3,555	*43.0*	4,389	*15.8*	
Gross NPA (%)	1.1	0.9		0.9		*Headline GNPLs rose on slippages of 2 restructured account*
Net NPA (%)	0.4	0.4		0.4		
Provision coverage	60.0	58.7		58.4		
Restructured book	0.2	0.5		0.4		
Overall stress assets	1.3	1.4		1.3		Overall stress asset broadly stable

Source: Company, Edelweiss research

Table 2: Loan growth continues to be strong; suggesting market share gains

(INR mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Advances	7,22,430	7,82,939	8,21,670	8,84,193	9,36,780	9,89,491	10,27,700	11,30,805	11,64,070
YoY (%)	23.1	30.6	28.7	28.5	29.7	26.4	25.1	27.9	24.3
QoQ (%)	5.0	8.4	4.9	7.6	5.9	5.6	3.9	10.0	2.9
Deposits	7,76,930	8,08,405	8,64,230	9,30,003	10,17,680	11,23,133	11,92,180	12,65,722	13,36,730
YoY (%)	21.6	22.5	24.6	25.4	31.0	38.9	37.9	36.1	31.4
QoQ (%)	4.8	4.1	6.9	7.6	9.4	10.4	6.1	6.2	5.6
CD ratio (%)	93.0	96.8	95.1	95.1	92.1	88.1	86.2	89.3	87.1
CASA (%)	34.7	34.7	35.0	35.2	34.4	36.5	37.1	36.9	37.8

Table 3: NIMs maintained at aspired 4% mark

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Yield on Advances	12.7	12.4	12.1	12.0	12.1	11.9	11.7	11.4	11.5
Cost of deposits	7.6	7.4	7.2	7.1	6.9	6.6	6.4	6.1	6.2
NIMs	3.7	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0

Table 4: Core fee income supported by distribution fees

(INR mn)	Q1FY18	Q1FY17	*YoY (%)*	Q4FY17	*QoQ (%)*
Trade Fees (LC, BG, Remittances)	1,310	1,093	*19.8*	1,210	*8.3*
Processing Fees & other charges	1,960	2,151	*(8.9)*	2,430	*(19.3)*
FX – Client	1,980	1,510	*31.2*	1,700	*16.5*
TPP (Insurance ,MF ,etc)	2,100	1,367	*53.6*	2,410	*(12.9)*
Investment Banking Income	1,750	1,143	*53.1*	1,590	*10.1*
Gen. Bkg. / Other Income	640	555	*15.3*	630	*1.6*

Table 5: Headine asset quality rose following slippages of 2 restructued accounts to NPLs

(%)	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Opening gross NPA	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
CCB	0.6	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.8
CFD	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Additions	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.6	0.5
CCB	0.0	0.2	0.2	0.2	0.2	0.1	0.2	0.7	0.5
CFD	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.4	0.5
Deductions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.5	0.3
CCB	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	0.3
CFD	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.4
Closing gross NPA	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.1
CCB	0.5	0.5	0.6	0.7	0.8	0.7	0.8	0.8	1.0
CFD	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.1	1.3

Table 6: GNPAs rose in traction segment (albeit on very small base)

(%)	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
CV	1.2	1.1	1.1	1.0	1.1	1.1	1.0	1.0	1.1
Utility	1.1	1.0	1.0	1.2	1.3	1.2	1.1	1.1	1.4
Const equip	1.5	1.6	1.5	1.3	1.4	1.4	1.2	1.2	1.1
Small CV	1.0	0.8	0.8	1.0	1.1	1.0	0.8	0.9	1.3
2W	2.7	2.8	3.0	3.0	3.2	3.6	3.6	3.5	3.6
Cars	0.6	0.4	0.4	0.5	0.5	0.5	0.8	0.7	0.7

Source: Company

Table 7: Loan book composition

(%)	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Commercial vehicles	16.2	15.7	15.4	15.8	15.8	16.1	15.9	16.1	15.8	15.9	15.4	15.2
Utility vehicles	3.4	3.2	2.9	2.8	2.6	2.5	2.3	2.2	2.2	2.2	2.1	2.1
Cars	4.8	4.7	4.6	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.1	4.1
Small CV	7.6	7.4	6.8	6.5	6.1	6.1	5.8	5.6	5.5	5.6	5.0	4.8
Equipments	4.7	4.4	4.1	3.9	3.7	3.7	3.7	3.7	3.6	3.8	3.6	3.8
Others (home and personal)	6.7	7.0	7.5	8.0	8.1	8.7	9.2	9.3	9.5	9.9	10.0	10.5
Loan to large corporates	28.9	29.3	29.0	29.7	26.5	26.8	28.6	29.2	27.9	27.5	27.8	28.4
Loan to mid corporates	17.0	16.6	16.7	16.5	20.6	19.5	18.8	18.3	19.5	19.2	19.6	19.5
Loan to small businesses	10.7	11.8	13.0	12.3	12.0	12.0	11.3	11.4	11.6	11.6	12.3	11.7

Table 8: Strong low cost deposit accretion

(%)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
CA	16.7	16.6	16.1	16.3	16.6	15.7	18.2	15.9	15.5	14.2
SA	17.5	18.0	18.6	18.7	18.5	18.8	18.3	21.1	21.4	23.6

Chart 1: Core fee growth softer than trend

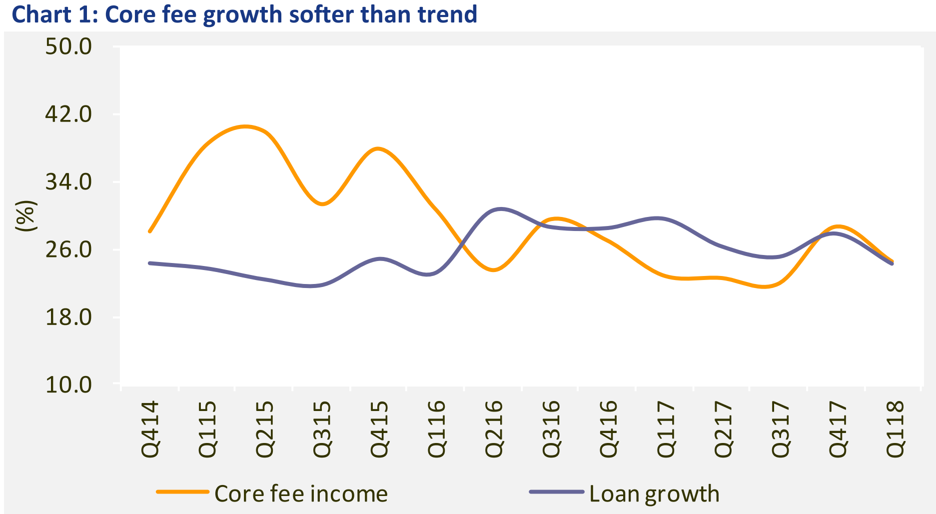
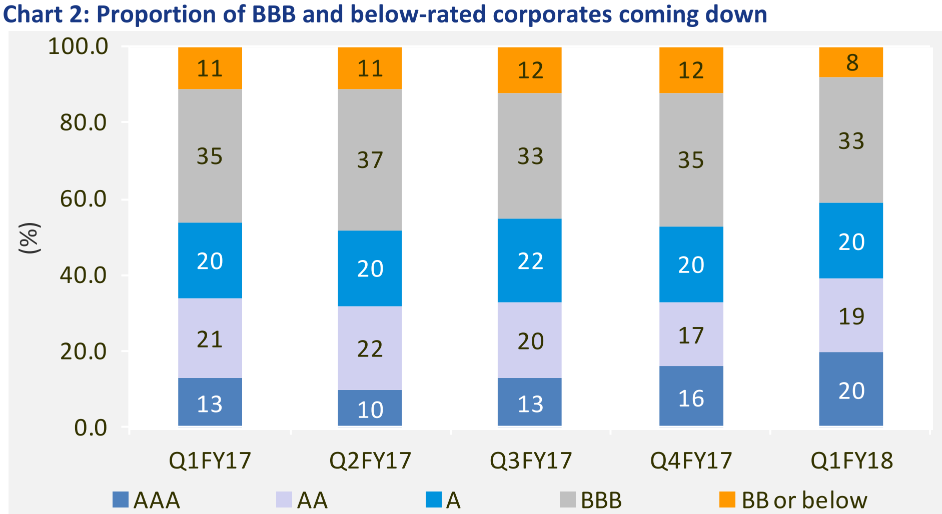


Chart 2: Proportion of BBB and below-rated corporates coming down



Source: Company

Financial snapshot (INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Interest income	41,355	32,917	*25.6*	38,300	*8.0*	144,057	172,885	208,291
Interest exp	23,615	19,353	*22.0*	21,626	*9.2*	83,431	97,768	116,224
Net int. inc. (INR mn)	17,741	13,564	*30.8*	16,675	*6.4*	60,626	75,117	92,067
Other income	11,673	9,730	*20.0*	12,113	*(3.6)*	41,715	49,566	61,442
Net revenues	29,413	23,294	*26.3*	28,788	*2.2*	102,341	124,682	153,509
Operating expenses	13,528	10,956	*23.5*	13,065	*3.5*	47,831	58,569	72,518
Staff costs	4,222	3,569	*18.3*	3,943	*7.1*	15,210	19,468	23,979
Other opex	9,306	7,387	*26.0*	9,122	*2.0*	32,621	39,101	48,539
Pre prov op profit (PPOP)	15,885	12,338	*28.8*	15,722	*1.0*	54,510	66,113	80,991
Provisions	3,100	2,305	*34.5*	4,301	*(27.9)*	10,909	11,640	13,503
Profit before tax	12,786	10,033	*27.4*	11,421	*11.9*	43,601	54,473	67,488
Provision for taxes	4,420	3,419	*29.3*	3,905	*13.2*	14,922	18,156	22,494
PAT	8,365	6,614	*26.5*	7,516	*11.3*	28,679	36,317	44,994
Diluted EPS (INR)	13.9	10.6	*30.3*	12.5	*11.0*	47.9	60.7	75.2
Ratios								
NII/GII (%)	42.9	41.2		43.5		42.1	43.4	44.2
Cost/income (%)	46.0	47.0		45.4		46.7	47.0	47.2
Provisions / PPOP	19.5	18.7		27.4		20.0	17.6	16.7
Tax rate (%)	34.6	34.1		34.2		34.2	33.3	33.3
Bal. sheet data (INRbn)								
Advances	1,164	937	*24.3*	1,131	*2.9*	1,131	1,414	1,767
Deposits	1,337	1,018	*31.4*	1,266	*5.6*	1,266	1,500	1,923
CD Ratio	87	92		89		89	94	92
Prov. coverage (%)	60.0	58.7		58.4		58.4	66.5	67.6
Asset quality								
Gross NPA	12,717	8,606	*47.8*	10,549	*20.6*	10,549	15,658	22,756
Gross NPA (%)	1.1	0.9		0.9		0.9	1.1	1.3
Net NPA	5,083	3,555	*43.0*	4,389	*15.8*	4,389	5,241	7,370
Net NPA (%)	0.4	0.4		0.4		0.4	0.4	0.4
Adj book value / share	-	-		-		340.0	389.3	451.6
Price/ Adj. book (x)	-	-		-		4.6	4.0	3.5
Price/ Earnings	-	-		-		32.6	25.7	20.7

Q1FY18 earnings call takeaways

With respect to asset quality

- Rise in GNPLs was largely due to slippages from restructured book (2 accounts slipped into NPLs), ***consequently overall stressed assets (GNPLs + restructured book) was broadly stable***. Slippages during the quarter were INR6.08bn (versus 6.34bn in previous quarter).
- The bank had exposure towards 3 accounts (of the 12 cases referred to IBC) with cumulative exposure of INR500mn, wherein the bank is adequately provided for (only residual INR100-120mn may have to be provided for in Q2FY18).
- The higher provisions last time was towards one account (provisions were contingent on JPA and Ultratech deal) , with this deal consummated there was a provision reversal of INR1.22bn , however bank prudently used entire amount as a) INR700mn of floating provisions b) INR330mn is still retailed on this account (some residual money for the system is yet to come back, provision reversal is based on some contingencies which will be reversed in Q2FY18) and c) accelerated provisions of INR200mn is made towards Security Receipts and MFI book.
- ***GNPLs in Micro Finance stood at INR310mn, based on internal process bank generally makes 60% provisions, however bank has made additional provisions of INR100mn towards that portfolio (total provisions on this stood at INR280mn)***. Currently the Portfolio at risk stands at INR500mn, but bank is hopeful that the recovery will improve and by the end of the quarter PAR could be to the tune of INR250mn (so no incremental credit cost expected on this portfolio).
- Exposure to telecom is towards 3 large groups . ***The exposure came down to 2.1% (from 3.5% in previous quarter) following repayment by one of the large accounts. Having said that, based on RBI mandate the bank heightened its standard asset provisions to 75bps (earlier 40bps) and consequently had higher provisions of INR80mn during the quarter.***
- Bank don’t expect any further list to be put by RBI and expects the resolutions in other cases to be driven by consortium henceforth. Having said that, given the lower ticket size of loans bank doesn’t expect any deviation in asset quality metrics.
- SRs – INR3.57bn (flat QoQ).
- ***With the floating provisions the PCR now stands at 60% (versus 58% in previous quarter).***

With respect to growth

- Loan book growth was pegged at 24% YoY /3% QoQ , largely driven by 26% growth in corporate finance and 22% growth in vehicle finance (slower growth of 17% in vehicle finance given GST transition and BS-IV implementation, however non-vehicle segment continues to growth at strong > 35%). June disbursement in Vehicle has been higher than April and May thus expect the growth in vehicle segment to normalise, expect growth in Q2FY18 on vehicle portfolio to be similar before gaining traction in H2FY17.
- ***Loan book growth at 3% QoQ but risk weight has grown at 1% QoQ.***
- Sequentially the capital adequacy has improved on 2 counts a) improved risk profiles, leading to lower RWA/assets and b) the bank has raised 10bn of AT1 during the quarter.

- The rise in exposure in power sector is largely driven by increase in exposure to renewable segment (solar + wind) which has strong sponsors (management is cautious of the aggressive bids done and thus are cautious on this sector and is taking the exposure selectively) and some increase in transmission segment.
- ***CASA growth continues to be strong at >40% supported by > 65% growth in saving account balances. The growth is largely due to three key factors a) Focus on granular saving accounts : INR85-90K customer per month is added now b) deepening in the balances (now the balance is INR60K versus earlier INR40K) and c) some breakthrough in government business whole new vertical set up to capture this business, while this is towards one corporate but is distributed towards 300 projects.***
- Expect CV Market should grow after GST implementations (time frame couple of months). Thus expect H2FY17 to witness good level of growth.

Other highlights

- ***Planning cycle 4 target is to reduce cost/income ratio by 2 percentage points. This will largely be driven by lower opex (change in branch formats, steady headcount over last couple of quarters etc).***
- Market risk has risen largely due to higher SLR growth.
- Of the total loan book 40-45% is now linked to MCLR.
- Cost of savings bank balances is < 6% now.
- Vehicle finance disbursement during the quarter: INR54bn (flattish QoQ)
- Composition of CA: retail – 50%, IPO/escrow – 25-30%, corporate – 20-25%.
- Bank sold INR570mn of assets during the quarter (largely a CV portfolio and then few smaller accounts, there was no lumpy account that was sold).
- Employees : 25413 (25612 in FY17, 22500 as at Q1FY17).

Q4FY17 earnings call takeaways

With respect to strategy

- ***Planning Cycle 4 (2017-20) themes:***
  - Loan book rebalancing: Composition target of 50:50 for corporate:retail by FY20
    - Within retail, composition target of 50:50 for vehicle:non-vehicle by FY20
  - Rural banking and microfinance: Rural banking to contribute >10% of bank's profits
  - Digital strategy: Digital to be 14% of profits by FY20
  - Internal collaboration & cross-sell: Inter BU collaboration to be 6x of current run-rate
  - Focus on productivity: To contribute 5% incremental PBT and lower C/I ratio by 2% by FY20
    - Avg. branch size expected to reduce by >45%
    - Avg. branch costs expected to reduce by >35%
  - Customer experience: Generates incremental CASA of INR100bn by FY20
- ***Planning Cycle 4 (2017-20) target:***
  - Loan growth: 25-30%
  - CASA ratio: 40%
  - Revenue growth: Exceed balance sheet growth
  - RoRWA: >2.4%
  - Branch network: 2,000
  - Customer base: Double to >20mn
- ***Planning Cycle 3 (2014-17) outcome:***
  - Loan growth: 27% (vs. target of 25-30%)
  - CASA ratio: 36.9% (vs. target of >35%)
  - Fee growth: 29% (vs. target to exceed loan growth)
  - Branch network: 1,200 (vs. target to double from 602)
  - Customer base: 9.5mn (vs. target to double from 4.5mn)

With respect to asset quality

- ***Made one-off provision of INR1.2bn against a large corporate standard asset a/c (pursuant to RBI advice)***
  - Relates to a bridge loan for a Merger & Acquisition in cement industry
  - ***Management is hopeful of reversal in Q1FY18 itself***
- During Q4FY17, 2 corporate accounts were written down and sold to ARCs (amounting to INR1.9bn)
  - The bank chose not to amortise the shortfall cost

- Net credit costs for FY17 stood at 59bps (in-line with guidance of sub-60 levels)
- Total funded exposure to telecom sector: <2.5%

Other highlights

- ***With regard to acquisitions, no proposal has gone to the Board yet***
  - Acquisition criteria: (i) Value accretive from day 1 (RoA, RoE, EPS), (ii) Domain leadership/specialisation
- ***IndAS guidelines should impact the bank's bottom line by 4-5%***
  - Current provisioning levels are higher than those required under IndAS
- ***Hopeful to attain RoE of ~20% over planning cycle 4 (FY17-20)***
- During Q4FY17, corporate loan book grew faster than the retail portfolio
  - Seeing good traction in WC financing on back of being more competitive on pricing
- BS-IV norms could lead to subdued demand in next quarter due to lack of manufacturer preparedness
- Distribution income has seen good traction, driven by increasing flows in the funds markets
- During planning cycle 4, hiring of employees will be lower than 10,000 that was carried out during planning cycle 3

Company Description

IndusInd Bank is one of the new-generation private-sector banks in India which commenced its operations way back in 1994. It was founded by Srichand P. Hinduja, a leading non-resident Indian businessman and head of the Hinduja Group. In 2004, the bank merged with Ashok Leyland Finance, a commercial-vehicle-finance focused NBFC.

Currently, bank caters to the needs of both consumer and corporate customers. It has a robust technology platform supporting multi-channel delivery capabilities. IndusInd Bank has 1,200 branches, and 2,036 ATMs spread across geographic locations of the country.

Investment Theme

Since management change, market has consistently rewarded IIB for its delivery on improvement in profitability metrics – ROA, ROE. IIB has a successful track record of growth and has raised capital at every stage at richer valuations to fund its expansion. Over the years, the bank has garnered support from strategic investors to prop up its ambitious growth plans. Given improving retail liabilities, high RoAs and well-capitalized position (Tier 1 at ~15.7%) we expect execution risk to be minimal. Improving liability franchise and above average earnings growth at strong return ratios will ensure that IIB will sustain premium valuations.

Key Risks

- Any further moderation in economic environment or slower recovery post demonetisation may impact earnings.
- Higher than anticipated withdrawal of deposits inflow post demonetisation.
- Risk emanates from the fact that if the bank is not able to achieve the desired level of integration among branches then cost may shoot up.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Deposit growth	8.6	14.0	12.0	13.0
CRR	4.0	4.0	4.0	4.0
SLR	20.8	20.0	20.0	20.0
G-sec yield	7.5	6.5	6.5	6.5
Company				
Op. metric assump. (%)				
Yield on advances	11.8	11.4	11.1	10.8
Yield on investments	6.4	7.3	7.1	6.8
Yield on asset	9.9	9.7	9.5	9.5
Cost of funds	6.4	5.9	5.8	5.8
Net interest margins	3.9	4.1	4.1	4.2
Cost of deposits	6.8	6.3	6.0	5.8
Cost of borrowings	6.7	6.7	6.6	6.8
Spread	3.5	3.7	3.7	3.7
Balance sheet assumption (%)				
Credit growth	28.1	28.1	24.9	24.9
Deposit growth	25.4	36.1	18.5	28.2
SLR ratio	21.9	21.1	21.0	21.0
Low-cost deposits	35.2	36.9	38.1	39.1
Gross NPA ratio	0.9	0.9	1.1	1.3
Net NPA ratio	0.4	0.4	0.4	0.4
Capital adequacy	14.6	13.8	14.3	13.3
Incremental slippage	1.2	1.6	1.5	1.5
Provision coverage	58.6	58.4	66.5	67.6

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	115,807	144,057	172,885	208,291
Interest expended	70,641	83,431	97,768	116,224
Net interest income	45,166	60,626	75,117	92,067
Non interest income	32,970	41,715	49,566	61,442
- Fee & forex income	30,685	38,149	47,502	59,151
- Misc. income	762	766	264	291
- Investment profits	1,523	2,801	1,800	2,000
Net revenue	78,135	102,341	124,682	153,509
Operating expense	36,721	47,831	58,569	72,518
- Employee exp	12,361	15,210	19,468	23,979
- Other opex	24,360	32,621	39,101	48,539
Preprovision profit	41,414	54,510	66,113	80,991
Provisions	6,717	10,909	11,640	13,503
Loan loss provisions	6,137	10,501	11,640	13,503
Investment depreciation	295	314	-	-
Other provisions	286	94	-	-
Profit Before Tax	34,697	43,601	54,473	67,488
Less: Provision for Tax	11,833	14,922	18,156	22,494
Profit After Tax	22,865	28,679	36,317	44,994
Reported Profit	22,865	28,679	36,317	44,994
Adj. Diluted EPS (INR)	38.4	47.9	60.7	75.2
Dividend per share (DPS)	4.5	6.0	9.0	9.0
Dividend Payout Ratio(%)	15.4	-	17.2	13.9

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth	32.1	34.2	23.9	22.6
Fees growth	27.2	24.3	24.5	24.5
Opex growth	27.9	30.3	22.5	23.8
PPOP growth	33.8	29.6	24.4	22.8
PPP growth	33.7	31.6	21.3	22.5
Provisions growth	72.7	62.4	6.7	16.0
Adjusted Profit	27.5	25.4	26.6	23.9

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	11.8	11.4	11.1	10.8
Yield on investments	6.4	7.3	7.1	6.8
Yield on assets	9.9	9.7	9.5	9.5
Cost of funds	6.4	5.9	5.8	5.8
Net interest margins	3.9	4.1	4.1	4.2
Cost of deposits	6.8	6.3	6.0	5.8
Cost of borrowings	6.7	6.7	6.6	6.8
Spread	3.5	3.7	3.7	3.7
Cost-income	47.0	46.7	47.0	47.2
Tax rate	34.1	34.2	33.3	33.3

Balance sheet				(INR mn)
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	5,950	5,982	5,982	5,982
Reserves & Surplus	171,010	200,480	230,540	269,278
Net worth	176,960	206,461	236,522	275,259
Sub bonds/pref cap	-	-	500	1,000
Deposits	930,004	1,265,722	1,500,490	1,923,473
Total Borrowings	221,559	224,537	230,331	259,294
Other liabilities	73,758	91,877	47,358	59,724
Total liabilities	**1,402,280**	**1,788,597**	**2,015,200**	**2,518,750**
Loans	884,194	1,130,805	1,413,506	1,766,883
Cash and Equivalents	101,119	186,283	114,449	145,425
Gilts	252,680	314,523	363,472	458,381
Others	59,463	52,498	62,675	74,888
Fixed assets	12,553	13,352	12,932	12,432
Other Assets	92,271	91,136	48,165	60,742
Total assets	**1,402,280**	**1,788,597**	**2,015,200**	**2,518,750**
BVPS (INR)	297.4	345.2	395.4	460.2
Credit growth	28.1	28.1	24.9	24.9
Deposit growth	25.4	36.1	18.5	28.2
EA growth	24.2	29.8	16.0	25.2
SLR ratio	21.9	21.1	21.0	21.0
C-D ratio	97.0	91.3	96.2	93.7
Low-cost deposits	35.2	36.9	38.1	39.1
Provision coverage	58.6	58.4	66.5	67.6
Gross NPA ratio	0.9	0.9	1.1	1.3
Net NPA ratio	0.4	0.4	0.4	0.4
Incremental slippage	1.2	1.6	1.5	1.5
Net NPA / Equity	1.8	2.1	2.2	2.7
Capital adequacy	14.6	13.8	14.3	13.3
- Tier 1	14.9	14.7	13.4	13.0

RoE decomposition (%)

Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	3.9	4.1	4.1	4.2
Fees/Assets	2.7	2.6	2.6	2.7
Invst. profits/Assets	0.1	0.2	0.1	0.1
Net revenues/assets	6.7	6.9	6.9	7.0
Operating expense/assets	(3.1)	(3.2)	(3.2)	(3.3)
Provisions/assets	(0.6)	(0.7)	(0.6)	(0.6)
Taxes/assets	(1.0)	(1.0)	(1.0)	(1.0)
Total costs/assets	(4.7)	(4.9)	(4.9)	(4.9)
ROA	2.0	1.9	2.0	2.0
Equity/assets	12.1	12.9	12.2	11.6
ROAE (%)	16.1	15.0	16.4	17.6

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	38.4	47.9	60.7	75.2
Y-o-Y growth (%)	*13.4*	*24.8*	*26.6*	*23.9*
BV per share (INR)	297.4	345.2	395.4	460.2
Adj. BV per share (INR)	293.6	340.0	389.3	451.6
Diluted P/E (x)	40.6	32.6	25.7	20.7
P/B (x)	5.2	4.5	3.9	3.4
Price/ Adj. BV (x)	5.3	4.6	4.0	3.5
Dividend Yield (%)	0.3	0.4	0.6	0.6

Peer comparison valuation

	Market cap	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	(USD mn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
IndusInd Bank	14,464	25.7	20.7	4.0	3.5	16.4	17.6
Axis Bank	18,811	17.9	11.7	2.3	2.0	11.7	16.0
DCB Bank	912	23.0	19.7	2.6	2.3	11.5	11.9
Federal Bank	3,425	15.6	13.1	2.1	1.9	13.3	14.2
HDFC Bank	66,971	24.9	21.1	4.2	3.6	17.9	18.3
ICICI Bank	28,761	13.8	9.6	2.2	1.9	12.1	15.8
Karnataka Bank	956	8.5	7.3	1.0	0.9	10.2	11.0
Kotak Mahindra Bank	28,256	30.3	24.9	4.5	3.8	15.6	16.3
Yes Bank	10,730	16.1	12.5	2.8	2.4	18.0	19.9
Median	-	17.9	13.1	2.6	2.3	13.3	16.0
AVERAGE	-	19.6	15.6	2.9	2.5	14.1	15.7

Source: Edelweiss research

Additional Data

Directors Data

R. Seshasayee	Chairman	Romesh Sobti	Managing Director
T. Anantha Narayanan	Director	Kanchan Chitale	Director
Vijay Vaid	Director	Ranbir Singh Butola	Director
Y M Kale	Director	Shanker Annaswamy	Director
T. T. Ram Mohan	Director		

Auditors - Price Waterhouse Chartered Accountants LLP

Holding - Top 10

	Perc. Holding		Perc. Holding
Jpmorgan Chase & Co	3.60	Bridge India Fund	3.51
Dia Afrin	1.52	UTI Asset Management Co Ltd	1.48
Birla Sun Life Asset Management	1.37	Schroders Plc	1.26
ICICI Prudential Life Insurance	1.25	Tybourne Eq Master Fund	1.21
Franklin Resources	1.10	SBI Fund Management	1.08

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
29 Mar 2017	Tybourne Equity Master Fund	Buy	7245546	1404.75
29 Mar 2017	Tybourne Long Opportunities Master Fund	Buy	2547165	1400.00
29 Mar 2017	Macquarie Bank Ltd	Sell	3532138	1409.50
29 Mar 2017	Goldman Sachs Investments Mauritius I Ltd	Sell	7138938	1400.19
22 Mar 2017	In Entertainment India Ltd	Buy	300000	1378.00
22 Mar 2017	Aasia Corporation Llp	Sell	300000	1378.00
21 Mar 2017	HINDUJA FINANCE PRIVATE LIMITED	Buy	685000	1380.00
21 Mar 2017	AASIA CORPORATION LLP	Sell	685000	1380.00
16 Mar 2017	Aasia Exports	Buy	300000	1359.00
16 Mar 2017	Aasia Corporation Llp	Sell	300000	1359.00
14 Mar 2017	AASIA EXPORTS	Buy	750000	1360.00
14 Mar 2017	AASIA CORPORATION LLP	Sell	750000	1360.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
27 Mar 2017	ANISH BEHL	Sell	35000.00
20 Mar 2017	ANISH BEHL	Sell	18000.00
03 Feb 2017	IndusInd International Holdings Limited	Buy	35829.00
22 Dec 2016	IndusInd International Holdings Limited	Buy	199000.00
20 Dec 2016	IndusInd International Holdings Limited	Buy	83000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	REDUCE	SU	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	**Expected absolute returns over 12 months**
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	**Criteria**
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	**Criteria**
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	**Criteria**
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Date: 2017.07.11 21:59:21 +05'30'

***Coverage group(s) of stocks by primary analyst(s):** Banking and Financial Services*

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
10-Jul-17	**Lakshmi Vilas Bank**	Transformation underway; *Visit Note*	203	Not Rated
09-Jul-17	**BFSI**	IDFC + Shriram merger: Structurally sound; uncertainty prevails; *Sector Update*		
07-Jul-17	**Dewan Housing Finance**	Well positioned to capitalise on opportunity; *Visit Note*	438	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

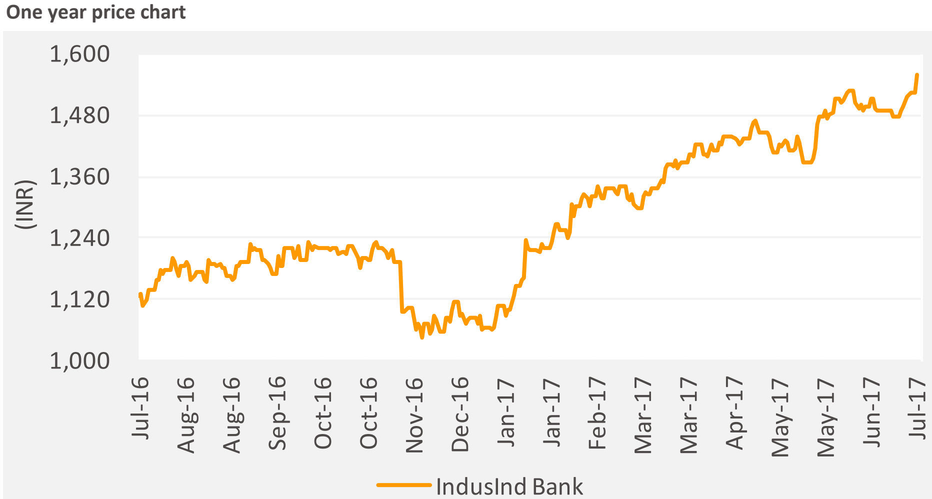
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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