

ICICI BANK

Core soft; asset quality on track

India Equity Research | Banking and Financial Services

ICICI Bank's Q1FY18 earnings were marginally lower than estimates, on soft core operating performance. While slippages were curtailed at 4.3% (~INR49.8bn), non-watch list slippages were high at 52% of corporate slippage (driven by 1 corporate account of >INR20bn), casting a shadow on veracity of the watch list claims. Retail/SME slippages were also high, largely being percolation of DeMon impact. Management highlighted that 2-3 accounts outside of drill-down list could emerge as stress over next couple of quarters, though overall slippages in FY18 will be lower than FY17. Core performance was soft owing to NIMs pressure (down 36bps QoQ) and soft growth (loan growth at <5% levels). While earnings visibility in corporate segment is weak, retail remains strong (retail advances grew >18%, retail fees >18%, CASA >24%), lending comfort. Consequently, the bank's strong franchise will enable it to deliver above-average normalised returns by FY20E, post near-term hiccups. Maintain 'BUY'.

Incremental stress lower; non-watch list slippages remains sticky

Amidst concern of exposure to NCLT referred accounts, slippages were still curtailed at INR49.8bn (4.3% versus run-rate of >7% in past 6 quarters), as 95% of that exposure was already recognised as NPL. Moreover, slippage from watch list was merely INR3.6bn, though slippage from restructured pool and one chunky corporate account in engineering industry dominated the slippage. However, partial recoveries from account which slipped into NPLs in Q4FY17 restricted GNPLs to INR431bn (up <2% QoQ). By and large, looking at the trend large part of the recognition seems to have been done away with, as reflected in potential stress (viz., restructured book, 5:25, SDR, watchlist) which reduced from >INR500bn in FY16 to INR240bn in Q1FY18. The key would be resolution/recovery, which has till date been slow. Hence, any positive development here could potentially provide earnings upside.

Outlook and valuations: Strong franchise; maintain 'BUY'

We expect road to recovery to be arduous given pressure on NIMs (migration to MCLR, re-pricing of loans) along with slower pick up in credit growth which will keep earnings recovery modest in near term. Factoring in these we prune our FY18/FY19 EPS by 3%/7%. We believe these are challenging times, manifested in temporary lull in earnings. However, bank's strong franchise will enable it to deliver healthy normalised returns post short term hiccups. The stock is trading at 1.2x FY19E P/ABV. Maintain 'BUY/SO' with SoTP of INR362.

Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	Growth %	Q4FY17	Growth %	FY17	FY18E	FY19E
Net revenue	90,779	85,878	5.7	89,794	1.1	4,12,418	4,23,401	4,74,340
Net profit	20,490	22,324	(8.2)	20,246	1.2	98,011	1,19,789	1,64,344
Dil. EPS (INR)	3.2	3.5	(8.9)	3.2	0.6	16.7	18.6	25.5
Adj. BV (INR)						106.7	119.0	137.4
Price/ Adj book (x)						1.9	1.7	1.5
Price/Earnings (x)						11.9	10.7	7.8

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: ICBK.BO, B: ICICIB IN)

CMP	: INR 307
Target Price	: INR 362
52-week range (INR)	: 315 / 215
Share in issue (mn)	: 6,413.0
M cap (INR bn/USD mn)	: 1,970 / 30,722
Avg. Daily Vol.BSE/NSE('000)	: 20,339.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	-	-	-
MF's, FI's & BK's	30.3	31.2	28.9
FII's	35.0	35.0	37.2
Others	34.7	33.8	33.9
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	6.7	5.4	7.4
3 months	23.3	7.3	11.6
12 months	24.9	16.3	29.5

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Loan growth softer, retail lends support

Advances came in at INR4.6tn, up ~3.3% YoY, driven by domestic loan growth (of ~11% YoY), whereas international book continued to decline (down ~25% YoY in INR terms and ~22% YoY in USD terms). Maintaining the trend, within domestic loan book, retail advances continued to grow at healthy ~19% YoY, taking proportion of retail advances to ~53% (<40% in FY13). Within overall retail book, home loans jumped ~17% YoY, while both personal loans and credit cards clocked >35% YoY growth each, taking proportion of unsecured book within retail to ~9.4% (from ~6.6% as at FY15). Meanwhile, focus remained on selective lending to higher-rated corporates, with the domestic corporate book declining ~2.8% YoY. Going forward, management expects growth to be driven by 18-20% growth in retail portfolio and 15-20% growth in SME book.

NIMs under pressure from lower lending yields

Margins witnessed sharp dip during the quarter, with global NIMs at 3.21% (down 36bps QoQ). Both domestic and overseas NIMs contracted during the quarter, coming in at 3.62% (down 34bps QoQ) and 0.73% (down 28bps QoQ), respectively. Major part of NIMs decline was attributable to: a) higher base in Q4FY17 (interest collection from non-performing assets); b) migration towards MCLR; and c) repricing of loans into lower interest rates. Meanwhile, funding cost was steady, with strong progress in bank's liability franchise, with CASA ratio at the 49% mark and average CASA ratio at ~45.4%. On strong liability franchise, management is targeting NIMs of >3% for FY18.

Table 1: Overall outstanding watch list (including restructured book) at INR227bn

(INR bn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Watchlist	324.9	275.4	190.4	203.6
Restructured book	63.4	64.1	42.7	23.7
Total	388.3	339.4	233.1	227.3
(%) of net advances	8.5	7.4	5.0	4.9
(%) of total exposure	4.1	3.6	2.5	2.4

Table 2: Movement in watch list , couple of accounts added to the watchlist

(INR bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY17	Q1FY18
Opening exposures	440.7	387.2	324.9	275.4	440.7	190.4
Net reduction in exposure	(3.7)	(16.8)	(21.2)	(5.9)	(47.6)	2.6
Net rating upgrade to 'investment grade'	(4.2)		1.1	0.7	(2.4)	14.2
Slippage to non-performing loans	(45.6)	(45.6)	(29.4)	(79.6)	(200.3)	(3.6)
Closing exposures	387.2	324.9	275.4	190.4	190.4	203.6

Table 3: Segment-wise disclosure of bank's watch list

	Q1FY17		Q2FY17		Q3FY17		Q4FY17		Q1FY18	
	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure	(INR bn)	(%) of total bank exposure
Power	114.3	1.3	90.0	0.9	83.5	0.9	62.3	0.7	70.8	0.8
Mining	77.3	1.0	75.8	0.8	55.5	0.6	52.3	0.6	55.9	0.6
Iron/Steel	49.0	0.8	47.1	0.5	44.9	0.5	39.7	0.4	39.9	0.4
Cement	56.7	0.7	56.2	0.6	56.8	0.6	2.9		3.2	0.0
Rigs	25.6	0.3	0.4		0.5		0.4		0.4	0.0
Promoter entities	64.4	0.7	55.3	0.6	34.2	0.4	32.7	0.3	33.3	0.4
Total exp. of stressed segment	387.2	4.8	324.9	3.4	275.4	3.0	190.4	2.0	203.6	2.2
Restructured book	72.4	0.9	63.4	0.7	64.1	0.7	42.7	0.5	23.7	0.3
Total watch list	459.7	5.7	388.3	4.1	339.4	3.7	233.1	2.5	227.3	2.5

Source: Company

Table 4: Exposure to stressed segments has been coming off gradually

(%)	FY15	FY16	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Power	5.5	5.4	5.0	5.4	5.1	4.8
Iron/Steel	4.8	4.5	3.8	3.8	3.6	3.6
Mining	1.5	1.6	1.6	1.6	1.8	1.8
Cement	1.5	1.2	1.1	1.1	1.1	1.1
Rigs	0.5	0.6	0.4	0.5	0.4	0.4

Table 5: Slippages from restructured book at <INR15bn

(INR bn)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Slippages (A)	22.4	65.4	70.0	82.5	80.3	70.4	112.9	49.8
-Fresh slippages (B)	13.1	51.9	42.8	69.3	68.0	68.0	94.9	35.0
-NPLs from restructured book (C)	9.3	13.6	27.2	13.2	12.3	2.4	18.0	14.8
Incremental restructuring (D)	NA	5.8	0.0	0.6	0.0	0.0	0.0	0.0
Fresh impaired asset formation (B + D)	NA	57.7	42.8	69.9	68.0	68.0	94.9	35.0
Total stress accretion (A + D)	NA	71.3	70.0	83.1	80.3	70.4	112.9	49.8

* Note: Incremental restructuring for Q2FY16 was marginal and absolute amount was not disclosed

Table 6: Recovery from a account that slipped in Q4FY17 restricted GNPLs rise

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Gross NPA (INR mn)	2,71,936	3,21,786	3,77,167	4,25,516	4,31,476
Gross NPA (%)	5.9	6.8	7.9	8.7	8.8
Net NPA (INR mn)	1,50,407	1,62,149	1,98,872	2,52,078	2,63,062
Net NPA (%)	3.4	3.6	4.4	5.4	5.4
Provision coverage (%)	44.7	49.6	47.3	40.8	39.0

Table 7: Loan growth at ~3% YoY, CD ratio at ~95%

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Advances (INR Bn)	4,494	4,543	4,575	4,642	4,641
Growth Y-o-Y	12.4	10.9	5.2	6.7	3.3
Growth Q-o-Q (%)	3.3	1.1	0.7	1.5	(0.0)
Deposits (INR Bn)	4,241	4,491	4,653	4,900	4,863
Growth Y-o-Y	15.3	16.8	14.2	16.3	14.7
Growth Q-o-Q (%)	0.6	5.9	3.6	5.3	(0.8)
CD ratio (%)	106.0	101.2	98.3	94.7	95.4

Table 8: Retail continues to drive growth

(%)	FY14	FY15	FY16	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Retail	39.0	42.4	46.6	47.9	48.9	51.8	53.3
Domestic Corporate	30.1	28.8	27.5	27.7	28.4	27.3	26.8
SME	4.4	4.4	4.3	4.3	4.6	4.8	4.5
International	24.3	24.3	21.6	20.1	18.1	16.1	15.4

Table 9: NIMs decline on yield pressure

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
NIM (rep)	3.2	3.1	3.1	3.6	3.2
Cost of funds (cal)	5.5	5.5	5.3	4.8	5.0
Yield on advances (cal)	8.9	8.8	8.7	8.7	8.5

Source: Company

Table 10: CASA ratio at ~49%; average CASA at ~45.4%

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Savings (INR bn)	1,382	1,469	1,654	1,718	1,700
Growth Q-o-Q	3.0	6.3	12.6	3.9	(1.1)
Current (INR bn)	531	584	666	750	681
Growth Q-o-Q	(9.7)	9.8	14.0	12.7	(9.2)
CASA ratio	45.1	45.7	49.9	50.4	49.0
Fixed deposits (INR bn)	2,327	2,438	2,333	2,432	2,482
Growth Q-o-Q	1.9	4.8	(4.3)	4.2	2.1
Average CASA ratio	41.7	41.5	44.8	46.5	45.4

Table 11: Cost-income ratio at ~42%

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Cost-income	39.3	26.0	40.6	43.1	42.3
Opex/assets	1.9	2.0	2.0	2.0	2.0

Source: Company

Financial snapshot

(InR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Interest income	135,592	133,303	1.7	135,685	(0.1)	541,563	583,121	654,856
Interest exp	78,693	81,717	(3.7)	76,064	3.5	324,190	341,825	373,733
Net int. inc. (INR mn)	56,899	51,585	10.3	59,622	(4.6)	217,373	241,296	281,123
Other income	33,879	34,293	(1.2)	30,172	12.3	195,045	182,104	193,217
Net revenues	90,779	85,878	5.7	89,794	1.1	412,418	423,401	474,340
Operating expenses	37,944	33,731	12.5	38,674	(1.9)	147,551	161,440	177,643
Staff expense	15,112	12,907	17.1	14,805	2.1	57,337	61,264	66,257
Other opex	22,833	20,824	9.6	23,869	(4.3)	90,214	100,175	111,386
Pre prov op profit(ppop)	52,834	52,147	1.3	51,120	3.4	264,867	261,961	296,697
Provisions	26,087	25,145	3.7	28,982	(10.0)	152,081	112,225	91,267
Profit before tax	26,747	27,002	(0.9)	22,138	20.8	112,786	149,736	205,430
Provision for taxes	6,257	4,679	33.7	1,892	230.8	14,775	29,947	41,086
PAT	20,490	22,324	(8.2)	20,246	1.2	98,011	119,789	164,344
Diluted EPS (INR)	3.2	3.5	(8.9)	3.1	0.6	16.7	18.6	25.5

Ratios

NII/GII (%)	42.0	38.7		43.9		40.1	41.4	42.9
Cost/income (%)	41.8	39.3		43.1		35.8	38.1	37.5
Tax rate (%)	23.4	17.3		8.5		13.1	20.0	20.0

Bal. sheet data (INR bn)

Advances	4,641	4,494	3.3	4,642	0.0	4,642	5,128	5,872
Deposits	4,863	4,241	14.7	4,900	(0.8)	4,900	5,392	6,278
CD Ratio	95	106		95		95	95	94

Asset quality

Gross NPA (INR bn)	431	272	58.7	426	1.4	426	461	461
Gross NPA (%)	8.8	5.9		8.7		8.9	8.7	7.6
Net NPA (INR bn)	263	150	74.9	252	4.4	252	243	210
Net NPA (%)	5.4	3.4		5.4		5.4	4.7	3.6

Valuation metrics

B/V per share (INR)						165.8	162.8	178.4
Adj book value / share						106.7	119.0	137.4
Price/ Adj. book (x)						1.9	1.7	1.5
Price/ Earnings						11.9	10.7	7.8

Change in Estimates

	New	FY18E Old	% change	New	FY19E Old	% change	Comments
NII	241,296	252,341	(4.4)	281,123	297,982	(5.7)	Factoring in lower NIMs and soft loan growth
PPOP	261,961	263,006	(0.4)	296,697	308,556	(3.8)	
Provisions	112,225	109,394	2.6	91,267	88,011	3.7	
PAT	119,789	122,890	(2.5)	164,344	176,436	(6.9)	
NIMs	3.3	3.4		3.4	3.5		

Key takeaways from ICICI Bank's Q1FY18 conference call

With respect to Asset Quality

- Of the overall NPLs of INR49.76bn , corporate/SME constitute around INR40.97bn , of this ~48% of slippages is from restructured/watchlist/devolvement and the balance slippage largely represents one account in electronics & engineering sector (domestic exposure of this corporate has slipped but international exposure has still not slipped).
- ***Slippages during the quarter were INR49.8bn of which slippages from watch list was INR3.6bn, slippages from restructured book – INR14.8bn.***
- Retail slippages : INR8.79bn (versus INR4.29bn in previous quarter), rec/upgrades : INR3.29bn. The rise in retail slippages was largely due to slippages pertaining to Demon (of the INR2.23bn portfolio impacted large part has been slipped into NPLs), excluding this the retail slippages were in line.
- ***Outstanding 5:25 refinancing at INR26.75bn out of which INR24.8bn is predominantly in watchlist (versus INR17.4bn in previous quarter). SDR outstanding of INR38.5bn (of which INR5.6bn is restructured and INR24.5bn is from drill down exposures). S4A stands at INR4.07bn (INR2.93bn in previous quarter).***
- The bank is also implementing change in management outside SDR for loans of INR55bn (included in the drilldown list from mining sector) which may potentially provide some resolution
- Sale to ARCs during the quarter comprised of INR1.67bn of one SMA-II account.
- There was part recovery one of the account (as was highlighted in Q4FY17) and the bank has reversed the provisions corresponding to it.
- The drill-down (watchlist) exposures has increased to INR203.6bn (versus INR190.4bn as at FY17) , this was largely due to addition of INR14.2bn (of which INR7.5bn was from 5:25 refinance account).
- The bank has made standard asset provision of INR1.60bn during the quarter towards standard assets outstanding in telecom sector and certain sectors identified earlier (power, iron & steel, mining & rigs)
- With respect to accounts under NCLT the bank had exposure totalling INR68.9bn towards which they have provided INR2.8bn (~41%), the balance provisions of INR6.4bn will have to be provided over the next 3 quarters.

With respect to Growth

- ***Re-orienting balance sheet towards lower risk, well balance portfolio and more granular portfolio (Retail portfolio grew 19%, and growth in the corporate segment is driven by non-stressed segments).*** For the bank, overall credit growth was ~ 3.3% YoY,
 - Domestic credit growth was 11% YoY driven by 19% growth in retail segment (forming ~53% of the overall loans). Bank continues to grow Personal Loan and Credit Card book with focus on cross sell opportunities.
 - Domestic corporate de-grew 2.8% YoY. However looking at the desirable segments (non NPA, non-watchlist etc) there was some growth
 - Growth in SME portfolio was > 18% (forming 4.5% of loans).

- International book registered-de-growth of 25% YoY (on rupee basis) and 22% (on USD basis) following .
- The bank is confident of sustaining 18-20% growth in retail segments and growth in the SME segment within the range of 15-20% (more granular and increased collateral focus). Bank expects the contribution of the overseas loan to go down further over next couple of years (from 15-16% currently).
- Retail fee income is > 70% which is growing at > 18%, the management expects the trend to sustain on the retail fee income.
- The CASA ratio was 49% (versus 50.4% at FY17). The average CASA ratio was 45.4% in Q4FY17 (versus ~46.5% in previous quarter)
- Domestic NIMs at 3.62% , International NIMs at 0.73% (1.01% in Q4FY17) . The NIMs during the quarter impacted by a) migration of loan to MCLR b) re-pricing of existing portfolio loans and c) higher incremental yields. Management aims to maintain >3% for full year FY18.
- ***Fee income driven by retail segment fees (up > 18% YoY) largely driven by a) third party distribution fees b) better forex fees and c) better credit card fees etc.*** The growth seen in fee income was more granular with no major one-time component. The management aims to maintains the traction seen during the quarter
- 30% of the domestic book is fixed rate in nature and of the floating rate book ~56% is already moved into MCLR regime.

Key takeaways from ICICI Bank's Q4FY17 conference call

With respect to Asset Quality

- **Slippages during the quarter were INR112.9bn of which slippages from watch list was INR79.57bn, slippages from restructured book – INR18.03bn.** For FY18 the slippages will be much lower when compared to FY17, also the credit cost will likely be lower in FY18 (albeit still elevated).
- INR53.78bn was due to one account in cement sector was included in the drill down exposure. The M&A transaction has been announced in respect of this company. **The Bank has classified the account as NPLs and expects part of the loan (~50% which is attached to that cement asset) to be upgraded on conclusion of the transaction. Additions to NPAs excluding this cement account stood at INR59bn (versus INR70.4bn in Q3FY17).**
- Retail slippages : INR4.4bn (versus INR4.29bn in previous quarter), rec/upgrades : INR5.24bn
- With respect to divergence with RBI there were account to the tune of the INR51bn (84% was already in drill down list and 7% was in restructured portfolio), which required provisions of INR10.7bn (INR7bn post tax). Currently, everything of that has already been classified (40% was provided in Q1FY17).
- **Outstanding 5:25 refinancing at INR26.75bn(out of which INR17.3bn is predominantly in watchlist) versus INR33bn (due to slippages to NPLs). SDR outstanding (of which INR16.6bn is restructured and INR26.36bn is from drill down exposures). S4A stands at INR2.93bn.** Currently the bank has general provisions of around INR10-11bn on these accounts.
- The bank is also implementing change in management outside SDR for loans of INR51bn (included in the drilldown list) which may potentially provide some resolution
- During the quarter, there was a drawdown of INR16.3bn from the collective contingency and related reserve, currently there is no balance contingency and related reserve. Further floating provision (which was earlier netted off from NNPLs) of INR15.15bn were fully utilised against specific assets during the quarter.
- Sale to ARCs during the quarter comprised of INR0.23bn of NPLs and INR5.83bn in SMA-II accounts.

With respect to Growth

- **Re-orienting balance sheet towards lower risk, well balance portfolio and more granular portfolio (Retail portfolio grew 19%, and growth in the corporate segment is driven by non-stressed segments).** For the bank, overall credit growth was ~ 7% YoY,
 - Domestic credit growth was 14% YoY driven by 19% growth in retail segment (forming ~52% of the overall loans). Bank continues to grow Personal Loan and Credit Card book with focus on cross sell opportunities.
 - Domestic corporate growth was 5.8% YoY , largely driven by the working capital loans. However looking at the desirable segments (non NPA, non-watchlist etc) the growth was higher
 - Growth in SME portfolio was > 17% (forming 4.8% of loans).

- International book registered-de-growth of 20% YoY (on rupee basis) and 18% (on USD basis) following .

- **Going in FY18, bank expects domestic loan growth of 15-16% driven by 18-20% retail segment growth. The growth in domestic corporate growth will likely be in 5-7% range with SME growth of 15-20%. The overseas book will likely be stable in USD terms**
- Domestic NIMs at 3.96% , International NIMs at 1.01% (0.83% in Q2FY17) . The NIMs during the quarter was supported by a) collections from loans that were non-performing and b) interest on income tax refund, which was further supported by lower funding cost given string traction in average CASA balances. Management aims to maintain >3% for full year FY18.
- Growth in fee income was better mid-teen growth. **Fee income driven by retail segment fees (up > 25% YoY) largely driven by a) third party distribution fees b) better forex fees and c) better credit card fees etc.** The growth seen in fee income was more granular with no major one-time component. The management aims to maintains the traction seen during the quarter
- The CASA ratio was 50.4% (versus 49.9% at Q3FY17). The average CASA ratio was 46.5% in Q4FY17 (versus ~45% in previous quarter)
- No of mobile banking transtaction doubled, value increased by 168%

Company Description

Incorporated in 1994, ICICI Bank is India's second largest bank and the largest among private banks with total assets of about >INR7.5tn. The bank's focus is on retail lending with retail financing representing ~53% of total loans and advances while International and corporate can be the new growth drivers when environment improves.

Investment Theme

We expect road to recovery to be arduous given pressure on NIMs (migration to MCLR, re-pricing of loans) along with slower pick up in credit growth which will keep earnings recovery modest in near term. Factoring in these we prune our FY18/FY19 EPS by 3%/7%. We believe these are challenging times, manifested in temporary lull in earnings. However, bank's strong franchise will enable it to deliver healthy normalised returns post short term hiccups. The stock is trading at 1.2x FY19E P/ABV. Maintain 'BUY/SO' with SoTP of INR362.

Key Risks

- With banks getting aggressive on retail side maintaining retail traction may turn out to be a challenge.
- Deterioration of macro environment can result in higher restructuring and slow down business growth.

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	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
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 assumpt. (%)				
Yield on advances	9.5	8.8	9.0	8.9
Yield on investments	6.6	6.4	6.4	6.6
Yield on asset	8.3	8.0	7.9	8.0
Cost of funds	5.2	5.0	4.9	4.7
Net interest margins	3.3	3.2	3.3	3.4
Cost of deposits	5.5	4.1	4.0	3.9
Cost of borrowings	6.4	6.0	6.0	6.0
Spread	3.1	3.0	3.1	3.2
Tax rate (%)	20.2	13.1	20.0	20.0
Balance sheet assumption (%)				
Credit growth	11.4	6.6	10.5	14.5
Deposit growth	16.6	16.3	10.0	16.4
SLR ratio	21.3	19.7	19.7	19.7
Low-cost deposits	45.8	50.4	50.8	51.3
Gross NPA ratio	5.8	8.9	8.7	7.6
Net NPA / Equity	14.9	26.0	23.2	18.2
Capital adequacy	16.6	17.4	16.9	16.4
Incremental slippage	4.1	7.6	4.0	2.5
Provision coverage	50.6	40.8	47.3	54.6

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	527,394	541,563	583,121	654,856
Interest expended	315,154	324,190	341,825	373,733
Net interest income	212,240	217,373	241,296	281,123
Non interest income	153,230	195,045	182,104	193,217
- Fee & forex income	97,332	97,208	110,817	127,440
- Misc. income	13,035	12,077	16,287	20,777
- Investment profits	42,863	85,760	55,000	45,000
Net revenue	365,471	412,418	423,401	474,340
Operating expense	126,836	147,551	161,440	177,643
- Employee exp	50,024	57,337	61,264	66,257
- Other opex	76,812	90,214	100,175	111,386
Preprovision profit	238,635	264,867	261,961	296,697
Provisions	116,678	152,081	112,225	91,267
Loan loss provisions	72,157	142,704	112,225	91,267
Investment depreciation	1,707	1,878	-	-
Other provisions	42,815	7,500	-	-
Profit Before Tax	121,957	112,786	149,736	205,430
Less: Provision for Tax	24,694	14,775	29,947	41,086
Profit After Tax	97,263	98,011	119,789	164,344
Reported Profit	97,263	98,011	119,789	164,344
Shares o /s (mn)	5,816	5,857	6,445	6,445
Adj. Diluted EPS (INR)	16.7	16.7	18.6	25.5
Dividend per share (DPS)	5.0	2.5	5.6	8.5
Dividend Payout Ratio(%)	32.8	17.4	35.0	38.7

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth	11.5	2.4	11.0	16.5
Fees growth	7.9	(0.1)	14.0	15.0
Opex growth	10.3	16.3	9.4	10.0
PPOP growth	7.8	(8.5)	15.6	21.6
PPP growth	21.0	11.0	(1.1)	13.3
Provisions growth	198.8	30.3	(26.2)	(18.7)
Adjusted Profit	(13.0)	0.8	22.2	37.2

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	9.5	8.8	9.0	8.9
Yield on investments	6.6	6.4	6.4	6.6
Yield on assets	8.3	8.0	7.9	8.0
Cost of funds	5.2	5.0	4.9	4.7
Net interest margins	3.3	3.2	3.3	3.4
Cost of deposits	5.5	4.1	4.0	3.9
Cost of borrowings	6.4	6.0	6.0	6.0
Spread	3.1	3.0	3.1	3.2
Cost-income	34.7	35.8	38.1	37.5
Tax rate	20.2	13.1	20.0	20.0

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	11,632	11,714	12,890	12,890	
Reserves & Surplus	857,550	959,622	1,036,297	1,136,969	
Net worth	869,181	971,336	1,049,187	1,149,859	
Sub bonds/pref cap	655,540	688,740	721,940	755,140	
Deposits	4,214,257	4,900,391	5,391,561	6,277,556	
Total Borrowings	1,092,534	786,822	858,571	948,607	
Other liabilities	378,874	342,452	370,440	415,207	
Total liabilities	7,210,386	7,689,740	8,391,698	9,546,369	
Loans	4,352,639	4,642,321	5,127,976	5,872,173	
Cash and Equivalents	598,687	757,131	761,784	840,122	
Gilts	1,128,208	1,120,381	1,231,276	1,423,554	
Others	475,910	494,685	553,212	621,664	
Fixed assets	47,595	49,877	47,664	45,201	
Other Assets	607,347	625,346	669,786	743,655	
Total assets	7,210,386	7,689,740	8,391,698	9,546,369	
BVPS (INR)	149.5	165.8	162.8	178.4	
Credit growth	11.4	6.6	10.5	14.5	
Deposit growth	16.6	16.3	10.0	16.4	
EA growth	6.3	7.0	9.4	14.1	
SLR ratio	21.3	19.7	19.7	19.7	
C-D ratio	108.1	98.9	99.2	97.4	
Low-cost deposits	45.8	50.4	50.8	51.3	
Provision coverage	50.6	40.8	47.3	54.6	
Gross NPA ratio	5.8	8.9	8.7	7.6	
Net NPA ratio	3.0	5.4	4.7	3.6	
Incremental slippage	4.1	7.6	4.0	2.5	
Net NPA / Equity	14.9	26.0	23.2	18.2	
Capital adequacy	16.6	17.4	16.9	16.4	
- Tier 1	13.1	14.4	13.9	13.4	

RoE decomposition (%)		FY16	FY17	FY18E	FY19E
Year to March					
Net int. income/assets	3.3	3.2	3.3	3.4	
Fees/Assets	1.7	1.6	1.7	1.8	
Invst. profits/Assets	0.7	1.3	0.7	0.5	
Net revenues/assets	5.7	6.1	5.8	5.8	
Operating expense/assets	(2.0)	(2.2)	(2.2)	(2.2)	
Provisions/assets	(1.8)	(2.2)	(1.5)	(1.1)	
Taxes/assets	(0.4)	(0.2)	(0.4)	(0.5)	
Total costs/assets	(4.2)	(4.6)	(4.1)	(3.8)	
ROA	1.5	1.4	1.6	2.0	
Equity/assets	13.2	13.6	13.8	13.4	
ROAE (%)	11.6	10.7	11.9	14.9	

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)	16.7	16.7	18.6	25.5	
Y-o-Y growth (%)	(13.2)	0.1	11.1	37.2	
BV per share (INR)	149.5	165.8	162.8	178.4	
Adj. BV per share (INR)	103.6	106.7	119.0	137.4	
Diluted P/E (x)	11.9	11.9	10.7	7.8	
P/B (x)	1.3	1.2	1.2	1.1	
Price/ Adj. BV (x)	1.9	1.9	1.7	1.5	
Dividend Yield (%)	2.5	1.3	2.8	4.3	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICI Bank	30,722	10.7	7.8	1.7	1.5	11.9	14.9
Axis Bank	19,613	19.2	12.4	2.4	2.1	11.2	15.8
DCB Bank	944	23.2	19.2	2.4	2.2	11.5	11.5
Federal Bank	3,427	18.1	14.5	1.9	1.7	11.4	11.7
HDFC Bank	71,833	26.0	21.5	4.5	3.9	18.2	19.0
IndusInd Bank	14,997	26.5	21.3	4.2	3.6	16.8	17.9
Karnataka Bank	891	8.0	6.7	0.9	0.8	10.0	11.2
Kotak Mahindra Bank	29,630	32.6	26.6	4.2	3.7	14.5	14.5
Yes Bank	12,741	18.9	14.4	3.3	2.8	18.2	20.3
Median	-	19.2	14.5	2.6	2.2	11.9	14.9
AVERAGE	-	21.0	16.5	2.9	2.5	13.7	15.2

Source: Edelweiss research

Additional Data

Directors Data

M K Sharma	Chairman	Chanda Kochhar	Managing Director & CEO
N S Kannan	Executive Director	Anup Bagchi	Executive Director
Vijay Chandok	Executive Director	Vishakha Mulye	Executive Director
Homi R Khusrokhhan	Director	V Sridar	Director
Tushaar Shah	Director	V K Sharma	Director
Amit Agrawal	Director	Dileep Choksi	Director

Auditors - B S R & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Deutsche Bank Trust Company Americas	25.27	Life Insurance Corporation of India	10.44
Dodge & Cox	7.06	HDFC Asset Management	3.47
ICICI Prudential Asset Management	2.33	Capital Group Companies	1.90
SBI Funds Management	1.81	BlackRock	1.53
Reliance Capital Trustee	1.42	Birla Sun Life Asset Management	1.35

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
19 May 2017	Drupad Shah	Sell	19850.00
16 May 2017	Sandeep Batra	Sell	20000.00
12 May 2017	SIDDHARTH MISHRA	Sell	40000.00
11 May 2017	SANJEEV MANTRI	Sell	25000.00
11 May 2017	BHARGAV DASGUPTA	Sell	225000.00

**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	HOLD	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	HOLD	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

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Aditya Narain

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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
27-Jul-17	L&T Finance Holdings	Walking the talk; Result Update	161	Buy
27-Jul-17	Yes Bank	As good as it gets; Result Update	1712	Buy
27-Jul-17	Federal Bank	Stress rise on guided path; growth momentum sustains; Result Update	115	Buy

Distribution of Ratings / Market Cap

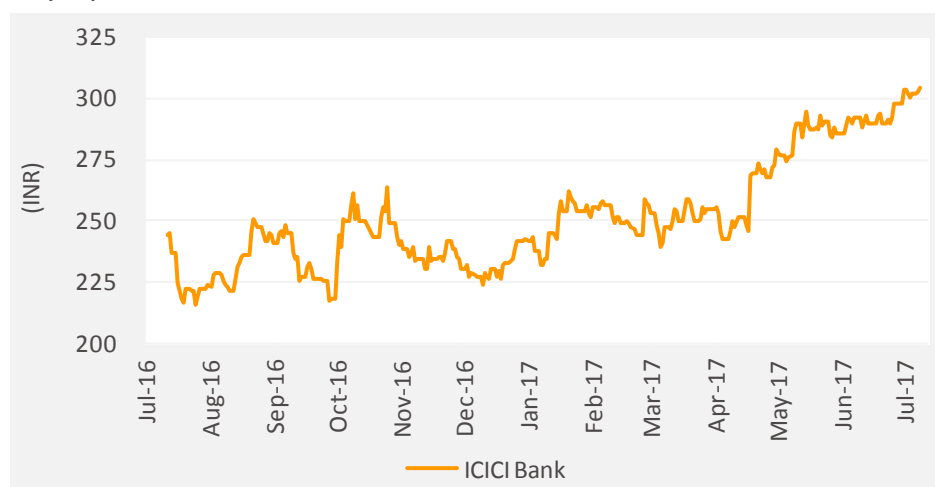
Edelweiss Research Coverage Universe

	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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