RESULT UPDATE

IDFC BANK

Steady quarter, merger uncertainty overhang persists

India Equity Research| Banking and Financial Services

IDFC Bank's (IDFC) Q2FY18 PAT of INR2.4bn came lower than estimate on lower other income (low treasury and soft core fee). After the Q1FY18 blip, asset quality was steady (GNPLs at INR20bn, flat QoQ, 3.9%). Retailisation continued with both asset and liability firming up (CASA crossed 8% mark, customer franchise rose to 1.9mn versus 1.6mn in Q1FY18, continued retailisation of funded book to 27.5% versus 26.1% in Q1FY18), but it still has a long way to go. Impending SCUF/IDFC merger is fraught with uncertainties in terms of swap ratios, execution and regulatory approvals, that could weigh on stock performance. Maintain 'HOLD'.

NIMs improvement drives NII, soft core fee impacts profitability

IDFC reported sequentially improving performance in NII (up >10% QoQ) on NIMs expansion (loan NIMs up ~50bps QoQ to 2.9% due to higher recognition of income in its stress book on which income is recognised on cash basis). This, along with lower opex (down ~6.9% QoQ) supported core profitability. However, earnings was impacted by lower other income (down >70% QoQ due to crystalisation of losses in few securities, but the bank had anyways marked it down to an extent which led to investment depreciation write-back, thus cushioning the impact). Given legacy balance sheet problems of infra-concentrated asset book & long-term fixed-rate bonds dominated liability side, IDFC expects NII growth to remain soft next year or so until it achieves balance sheet structure with higher retail asset contribution and higher proportion of low-cost borrowings.

Retail push on track

IDFC's retail banking operations are shaping up well – retailisation of funded book was on track at ~INR180bn (~27.5% of book versus ~26.1% in Q1FY18). Total number of customers crossed the 1.9mn mark, with the bank acquiring 337K customers in Q2FY18. With aim to become a mass retail bank, IDFC targets to take the total number of branches to 156 by FY18 and 800 by FY20 (100 currently). IDFC has a detailed vision for 2020 (***refer pg 2 for details***), while strategy seems right execution will be key.

Outlook and valuations: Limited upside; maintain 'HOLD'

We expect slower growth and NIMs pressure (given repricing of wholesale book and PSL drag) to lead to slower revenue traction. Thus, we estimate IDFC to deliver moderate profitability — RoA/RoE of ~1.2%/<10% by FY19. Merger uncertainties are an overhang on the stock and we await details on same. Maintain '**HOLD/SP'** with TP of INR67.

Financials **(INR mn)**

Year to March	Q2FY18	Q2FY17	*Growth %*	Q1FY18	*Growth %*	FY17	FY18E	FY19E
Net revenue	6,071	9,056	*(33.0)*	10,369	*(41.4)*	30,304	36,801	44,796
Net profit	2,337	3,878	*(39.7)*	4,376	*(46.6)*	10,197	13,645	15,914
Dil. EPS (INR)	0.7	1.1	*(40.4)*	1.3	*(46.9)*	3.0	4.0	4.7
Adj. BV (INR)						42.0	44.6	47.9
Price / Adj. book (x)						1.4	1.3	1.2
Price / Earnings (x)						19.0	14.2	12.2

EDELWEISS 4D RATINGS

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

MARKET DATA *(R: , B: IDFCBK IN)*

CMP	: INR 57
Target Price	: INR 67
52-week range (INR)	: 81 / 53
Share in issue (mn)	: 3,401.8
M cap (INR bn/USD mn)	: 194 / 2,999
Avg. Daily Vol.BSE/NSE('000)	: 11,206.0

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	52.8	52.9	52.9
MF's, FI's & BK's	15.0	14.4	13.5
FII's	15.7	17.8	20.3
Others	16.5	14.9	13.3

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

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	0.0	4.8	4.0
3 months	(5.3)	3.2	1.3
12 months	(26.8)	20.1	26.8

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October 26, 2017

Vision 2020: Intent right, execution holds key

IDFC has been grappling with legacy issues on 2 counts: a) Stress loan book; and b) Higher fixed rate book, which the bank quantified has an impact of INR5.7-6bn (annualised basis), translating into 35bps of RoA impact. Management expects these drags to persist over next few years and RoA drag to reduce to sub-10bps levels by FY21. In the interim, management highlighted the bank will progressively continue to focus on developing its retail franchise and building its non-infra book. With respect to this, IDFC has chalked out its *Vision 2020* (outlined below). On face of it we are enthused by the strategy, but execution is key (especially in the backdrop when PSU banks' recapitalisation will increase comptetiveness at a time when IDFC bank is trying to grow its business).

Table 1: Bank outlines various metrics as part of vision 2020

	FY18E	FY20E
Retail Credit (INR bn)	220	400
Direct	80	250-300
Indirect	140	100-150
Corporate Credit (INR bn)	ELC & Non-Infra LC: > 200	ELC: 100
Infra Credit (% Advances)		< 25
Non-Funded Credit (INR bn)	280	400
Franchise Fee Income (% Operating Income)	16 - 17	25
CASA (INR bn)	> 55	> 150
CASA (%)	10	15
Customers (mn)	2.5	7.5

Source: Company

Table 2: Key metrics

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Asset Quality						
GNPA (%)	6.1	6.0	7.0	3.0	4.1	3.9
NNPA (%)	2.3	2.4	2.6	1.1	1.7	1.6
Others						
CASA (INR mn)	8,690	17,910	9,000	20,940	28,500	32,000
CASA (%)	6.7	7.8	3.3	5.2	6.8	8.2
Branches	65	71	74	74	86	87
Headcount	2,702	3,145	3,639	3,906	4,194	4,677

Source: Company

Table 3: Credit growth largely driven by non-fund based book

	Value (INR mn)						QoQ Growth (%)					
	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net advances	4,59,140	5,01,800	4,69,830	4,94,020	4,62,050	4,88,300	0.5	9.3	(6.4)	5.1	(6.5)	5.7
Credit inv	44,960	69,580	96,580	1,71,650	1,64,700	1,63,470	62.0	54.8	38.8	77.7	4.0	0.7
LC/BG	70,600	1,07,240	1,47,130	1,86,050	2,04,820	2,54,210	38.3	51.9	37.2	26.5	10.1	24.1
Total	**5,74,700**	**6,78,620**	**7,13,540**	**8,51,720**	**8,31,570**	**9,05,980**	**7.3**	**18.1**	**5.1**	**19.4**	**2.4**	**8.9**

Source: Company

Table 4: Key takeaways from Q2FY18 earnings

(INR mn)	Q2FY18	Q2FY17	*Growth (%)*	Q1FY18	*Growth (%)*	*Comments*
Net interest income	4,619	4,956	*(6.8)*	3,880	*19.0*	*NII growth driven by better loan NIMs up ~50bps QoQ to 2.9%. Henceforth,we expect pressure on margins given higher proportion of long term fixed rate borrowings and softer yield (wholesale book repricing and PSL drag).*
Other income	1,452	4,100	*(64.6)*	6,488	*(77.6)*	*Non-interest income lower given lower treasury gains and softer wholesale fee income.*
Operating expenses	3,623	3,233	*12.1*	3,894	*(6.9)*	
Staff expense	1,580	1,497	*5.5*	1,654	*(4.5)*	
Other opex	2,043	1,736	*17.7*	2,240	*(8.8)*	*Lower non-HR expenses led to higher opex growth.*
Pre prov Op profit (PPP)	2,448	5,823	*(58.0)*	6,475	*(62.2)*	
Provisions	-1,004	223	*NA*	-146	*NA*	
Profit before tax	3,452	5,600	*(38.4)*	6,621	*(47.9)*	
Provision for tax	1,115	1,722	*(35.3)*	2,245	*(50.3)*	
Profit after tax	2,337	3,878	*(39.7)*	4,376	*(46.6)*	*Profitability was impacted by lower treasury income however was cushioned by provision write-back.*
EPS (INR)	0.7	1.1	*(40.4)*	1.3	*(46.9)*	
Balance sheet (INR bn)						
Advances	488	502	*(2.7)*	462	*5.7*	*Loan growth supported by non-infra book (driven by retail and emrgering corporates), while infra book continues to run down.*
Deposits	389	229	*69.7*	420	*(7.3)*	
Asset quality						
Gross NPA	20,015	32,197	*(37.8)*	20,041	*(0.1)*	
Net NPA	8,050	12,714	*(36.7)*	8,037	*0.2*	
Gross NPA (%)	3.9	6.0		4.1		*After a blip in Q1FY18 , the asset quality was broadly steady.*
Net NPA (%)	1.6	2.4		1.7		
Provision coverage (%)	58.9	59.1		58.8		
Restructured book (%)	1.0	2.6		1.0		
Overall stress assets (%)	4.9	8.6		5.1		

Source: Company, Edelweiss research

Financial snapshot **(INR mn)**

Year to March	Q2FY18	Q2FY17	*% change*	Q1FY18	*% change*	YTD18	FY18E	FY19E
Interest income	22,198	20,830	*6.6*	21,451	*3.5*	43,650	104,025	123,944
Interest exp	17,580	15,874	*10.7*	17,571	*0.0*	35,151	84,828	96,241
Net int. inc. (INR mn)	4,619	4,956	*(6.8)*	3,880	*19.0*	8,499	19,196	27,703
Other income	1,452	4,100	*(64.6)*	6,488	*(77.6)*	7,941	17,605	17,093
Net revenues	6,071	9,056	*(33.0)*	10,369	*(41.4)*	16,440	36,801	44,796
Operating expenses	3,623	3,233	*12.1*	3,894	*(6.9)*	7,517	16,063	19,846
Staff expense	1,580	1,497	*5.5*	1,654	*(4.5)*	3,234	8,128	10,934
Other opex	2,043	1,736	*17.7*	2,240	*(8.8)*	4,283	7,935	8,912
Pre prov op profit(ppop)	2,448	5,823	*(58.0)*	6,475	*(62.2)*	8,923	20,739	24,949
Provisions	(1,004)	223	*NA*	(146)	*NA*	(1,150)	219	1,017
Profit before tax	3,452	5,600	*(38.4)*	6,621	*(47.9)*	10,073	20,520	23,932
Provision for taxes	1,115	1,722	*(35.3)*	2,245	*(50.3)*	3,360	6,875	8,018
PAT	2,337	3,878	*(39.7)*	4,376	*(46.6)*	6,713	13,645	15,914
Diluted EPS (INR)	0.7	1.1	*(40.4)*	1.3	*(46.9)*	2.0	4.0	4.7
Ratios								
NII/GII (%)	20.8	23.8		18.1		19.5	18.5	22.4
Cost/income (%)	59.7	35.7		37.6		45.7	43.6	44.3
Provisions / PPOP	(41.0)	3.8		(2.3)		(12.9)	1.1	4.1
Tax rate (%)	32.3	30.8		33.9		33.4	33.5	33.5
Bal. sheet data (INRbn)								
Advances	488	502	*(2.7)*	462	*5.7*	488	577	713
Deposits	389	229	*69.7*	420	*(7.3)*	389	507	684
Asset quality								
Gross NPA	20,015	32,197	*(37.8)*	20,041	*(0.1)*	20,015	21,580	25,684
Gross NPA (%)	3.9	6.0		4.1		3.9	3.7	3.5
Net NPA	8,050	12,714	*(36.7)*	8,037	*0.2*	8,050	8,536	10,119
Net NPA (%)	1.6	2.4		1.7		1.6	1.5	1.4
B/V per share (INR)							46.3	50.0
Adj book value / share							44.6	47.9
Price/ Book (x)							1.1	1.0
Price/ Adj. book (x)							1.1	1.1
Price/ Earnings							12.7	10.9

Q2FY18 Earnings Concall Key Takeaways

Management commentary

- ***Management stated that the total drag due to legacy challenges (fixed-rate liabilities and stressed assets) stands at INR5.75-6bn, translating into estimated RoA drag of ~35bps***
  - ~INR4bn of the total drag is due to carrying stock of INR360bn of long-term fixed rate bonds, which costs ~8.9% p.a. on an average
  - ~INR1.75-2bn of the total drag is due to NII drag on account of total stressed asset pool of INR37bn
    - Of this INR37bn, INR20bn is net stressed assets – INR50bn gross stressed assets, with INR30bn (60%) of provisions
    - The remaining INR17bn is security receipts net of provisions and cash (received on selling INR40bn to ARCs)
  - Management expects this drag to decline as long-term liabilities mature and as BS grows, taking 3-3.5 years to come out of these challenges
    - ***Consequently, including the drag impact, management expects RoAs to touch 0.9-1% levels by FY20-21***
- ***Management re-iterated that focus will continue to be on retail (incl. SME), emerging large corporate (ELC) and non-infra large corporate (Non-infra LC)***
  - The bank is rapidly acquiring market share in the non-infra space – Non-infra funded credit grew by 76% YoY from INR139bn to IN244bn
  - Total retail book stood at INR180bn, with INR50bn of direct retail assets (up 38% QoQ) and INR130bn of indirect retail assets
    - ***Direct retail portfolio is growing at a monthly rate of INR4.5bn (net of repayments)***
    - Indirect retail book is in the form of portfolio purchases for PSL requirements, which should come down going forward
  - On the wholesale side, funded credit to ELCs and non-infra LCs grew 60% YoY from INR40bn to INR63.7bn
  - Non-funded credit has posted strong growth of 2.4x YoY from INR107bn to >INR250bn
- ***Management expects the cost/income ratio to rise and peak around ~55% levels before coming down to low 40s/high 30s***
- ***Management is confident that the pace of customer addition (2mn customers currently) will continue to expand in the coming quarters***
  - Currently, the monthly customer acquisition run-rate is >100,000, with ~25% of the customers acquired in 8 metro/tier-I cities

With respect to guidance

- ***Management is confident of achieving the following targets purely based on organic growth***

- Retail Credit –
  - FY18 – Direct retail: INR80bn, Total retail: INR220bn
  - FY20 – Direct retail: INR250-300bn, Total retail: INR400bn
- Corporate Credit –
  - FY18 – Emerging large corporate (ELC) and non-infra large corporate book: >INR200bn
  - FY20 – ELC book to touch INR100bn, with ***share of infra in total advances down to <25%***
- Non-funded Book – FY18: INR280bn, FY20: INR400bn
- Franchise Fee Income (% Operating Income) – FY18: 16-17%, FY20: 25%
- CASA – FY18: >INR55bn (10% CASA ratio), FY20: >INR150bn (15% CASA ratio)
- Network –
  - FY18 – Branches: 156 (50 in metro/tier-I, 106 semi-urban/rural), Micro-ATMs (MATMs): 12,000
  - FY20 – Metro/tier-I branches: 150, Semi-urban/rural branches + BC/IBLs: 650, MATMs: 30,000
- Customers – FY18: 2.5mn, FY20: 7.5mn

With respect to asset quality

- ***RBI had conducted the bank's assessment upto December, wherein it identified divergence on 1 specific asset***
  - ***However, the bank had sold off the asset in June and it was 100% recovered***
- IDFC Bank does not have any exposure to bad telecom assets
- ***PaR-30 in IDFC Bharat (earlier Grama Vidiyal) stood at sub-1% levels***

Other highlights

- ***Penalty imposed by RBI stood at INR20mn and was pertaining to an operational lapse (mis-interpretation of a loan approval process)***
- The bank has made good progress on the deposit front, with total deposits almost doubling from INR135bn to INR270bn
  - CASA has increased by 80% YoY from INR18bn to INR32bn, with CASA ratio settling at 8.2%
  - Core deposits (CASA + Retail TDs) grew by 140% YoY from INR30bn to INR70bn
- Franchise fee income has consistently tracked run-rate of >INR1bn every quarter and now constitutes 15% of operating income
- Notwithstanding the earnings drag, the bank has been expanding its network for distribution and liability products
  - As of Q2FY18, the bank had 100 branches (17 in metro/tier-I, 83 in semi-urban/rural), 383 BC/IBL outlets and >10,000 micro ATMs
  - On an average, a metro/tier I branch breaks-even in <36 months while a semi-urban/rural branch breaks-even in <18 months
- Total home loan advances stood at INR10bn as of Q2FY18

Q1FY18 Earnings Concall Key Takeaways

Management commentary

- ***Aim is to shift asset composition towards retail and change liability composition towards CASA and low-cost borrowings***
    - NII has been under pressure due to legacy balance sheet problem: infra-concentrated asset side and liability side dominated by long-term fixed rate bonds
    - Need to wait for another 9-12 months for NII to gain traction as change in BS structure takes effect
- ***Focus in wholesale business is on emerging large corporates (ELC) with under USD1bn turnover, mid-market and non-infra corporates***
    - ***Additionally, thrust is on growing non-funded business*** – Grown from INR70bn last year to INR200bn currently
    - Funded credit has grown from INR28bn last year to INR48bn currently
    - Since inception, bank has added 100 ELC accounts and done over INR30bn and INR20bn of funded and non-funded business, respectively
- ***Retail bank is shaping up well – Have >1.6mn customers and adding 80,000 customers every month through ~12,000 points of presence***
    - Of these 80,000 customers, 25,000 are in Bharat Plus (avg. SA of INR21,000), while the remaining 55,000 have a combination of loan-only, saving-only and loan & saving products (avg. SA is INR2,100)
    - Have 86 branches, which will be increased to 156 by Apr-18 – 105 will be Bharat and 50 will be Bharat Plus branches
    - Retail CASA and TD now stands over INR40bn
- ***Given current interest rate scenario, management believes that it may not be able to possible to book strong treasury gains beyond September***

With respect to asset quality

- ***Gross NPAs increased during the quarter due to a failed restructuring exercise***
    - However, given adequate provisioning, there was no P&L limit
- ***Net NPAs (as a % of assets) should continue to decline going forward***
- ***Management does not expect any significant additional provisioning on the corporate book***
- New business (retail-oriented) is in good stead, with 0.4% standard asset provisioning

Other highlights

- ***NIMs were down on account of pricing pressure due to price resets and sale of stressed loans to ARCs in previous quarter***
    - Starting next fiscal year, a significant portion of fixed rate borrowings will come for re-pricing benefiting funding costs
- ***Retailisation of funded book – INR164bn (~26% of book) of which ~INR34.4bn is organically-originated retail loans***
    - ~INR50bn run-rate of organic retail business - products include home loans, LAP, unsecured personal lending, 2W loans, etc.
- Non-HR costs of ~INR2.2bn during Q1FY18 is within budget and there is no excess run-rate with respect to the same

Company Description

IDFC was established in 1997 as a private sector enterprise by a consortium of public and private investors to provide infrastructure financing. It was mainly started as a government initiative, but the structure of ownership changed in 2005-06 with its IPO.

IDFC was one of the chosen ones to make the cut for banking license. In order to comply with regulatory compliance while starting banking business, IDFC Limited demerged its lending business to a separate company called IDFC Bank. Post de-merger, IDFC Bank has been structured as a three tier company with IDFC Ltd, the parent and listed entity, remaining at the top of the structure with a non-operating holding financial company (NOHFC) at the second level below the parent. This NOHFC has four subsidiaries - engaged in banking (IDFC Bank) and allied business including investment banking, asset management and alternate class business. IDFC's banking business under IDFC Bank was started from 1 October 2015. As at December 2015, IDFC Bank has 24 branches.

Investment Theme

We expect slower growth and NIMs pressure (given repricing of wholesale book and PSL drag) to lead to slower revenue traction. Thus, we estimate IDFC to deliver moderate profitability — RoA/RoE of ~1.2%/<10% by FY19. Merger uncertainties are an overhang on the stock and we await details on same..

Key Risks

On a funding side, IDFC Bank will have to built CASA and branches which could be a challenge in current scenario especially considering small finance banks are also poised to start their operations in next 18-24 months.

Deterioration of macro environment can result in slowdown with respect to credit offtake.

Building the retail side of Balance sheet, be it retail liability or retail asset.

Financial Statements

Key assumptions

	FY16	FY17	FY18E	FY19E
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
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)	65.5	67.1	65.0	66.0
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
Operating metric assump. (%)				
Yield on advances	10.7	10.7	10.8	11.2
Yield on investments	8.6	8.2	8.1	8.0
Yield on assets	9.9	9.3	9.0	9.2
Net interest margins	2.3	2.2	1.7	2.1
Cost of funds	8.6	7.8	7.9	7.6
Cost of deposits	5.6	7.5	8.5	8.0
Cost of borrowings	9.0	8.8	8.5	8.3
Spread	1.3	1.5	1.2	1.7
Tax rate	34.8	30.7	33.5	33.5
Balance sheet assumption (%)				
Credit growth	NA	8.1	16.7	23.5
Deposit growth	NA	389.2	26.0	35.0
SLR ratio	21.6	22.6	20.5	21.0
Low-cost deposits	NA	5.2	11.0	12.0
Gross NPA ratio	6.2	3.0	3.7	3.5
Net NPA ratio	2.4	1.2	1.5	1.4
Provision coverage	62.8	62.6	60.4	60.6
Incremental slippage	0.4	1.4	2.5	1.0
Net NPA / Equity	8.4	3.9	5.4	6.0
Capital adequacy	22.0	18.9	18.7	16.8

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	36,488	85,327	104,025	123,944
Interest expended	28,015	65,154	84,828	96,241
Net interest income	8,473	20,173	19,196	27,703
Non interest income	4,032	10,131	17,605	17,093
- Fee & forex income	1,532	4,230	5,805	7,093
- Investment profits	2,500	5,901	11,800	10,000
Net revenue	12,505	30,304	36,801	44,796
Operating expense	5,106	12,770	16,063	19,846
- Employee exp	2,566	5,736	8,128	10,934
- Other opex	2,540	7,034	7,935	8,912
Preprovision profit	7,400	17,535	20,739	24,949
Provisions	242	2,825	219	1,017
Loan loss provisions	192	2,775	1,319	967
Other provisions	50	50	(1,100)	50
Profit Before Tax	7,158	14,710	20,520	23,932
Less: Provision for Tax	2,489	4,512	6,875	8,018
Profit After Tax	4,669	10,197	13,645	15,914
Shares o /s (mn)	3,393	3,399	3,399	3,399
Adj. Diluted EPS (INR)	1.4	3.0	4.0	4.7
Dividend per share (DPS)	0.2	0.8	0.8	0.9
Dividend Payout Ratio(%)	19.8	27.6	22.0	22.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth		69.0	(4.8)	44.3
Fees growth		88.1	37.2	22.2
Opex growth		75.1	12.9	11.8
PPOP growth		68.5	9.1	10.2
PPP growth		68.5	18.3	20.3
Provisions growth		534.1	(92.2)	364.1
Adjusted Profit		59.2	33.8	16.6

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	10.7	10.7	10.8	11.2
Yield on investments	8.6	8.2	8.1	8.0
Yield on assets	9.9	9.3	9.0	9.2
Cost of funds	8.6	7.8	7.9	7.6
Net interest margins	2.3	2.2	1.7	2.1
Cost of deposits	5.6	7.5	8.5	8.0
Cost of borrowings	9.0	8.8	8.5	8.3
Spread	1.3	1.5	1.2	1.7
Cost-income	40.8	42.1	43.6	44.3
Tax rate	34.8	30.7	33.5	33.5

Balance sheet				(INR mn)
As on 31st March	**FY16**	**FY17**	**FY18E**	**FY19E**
Share capital	33,926	33,990	33,990	33,990
Reserves & Surplus	102,399	112,790	123,428	135,835
Net worth	136,325	146,780	157,418	169,825
Sub bonds/pref cap	6,500	6,500	6,500	6,500
Deposits	82,190	402,082	506,624	683,942
Total Borrowings	565,100	496,122	582,142	574,171
Other liabilities	42,044	70,112	82,732	99,279
Total liabilities	**832,160**	**1,121,597**	**1,335,416**	**1,533,716**
Loans	456,994	494,017	576,738	712,532
Cash and Equivalents	29,040	51,020	58,907	67,410
Gilts	110,570	163,640	172,512	188,747
Others	186,722	341,077	443,400	465,570
Fixed assets	6,729	7,866	8,366	8,866
Other Assets	42,105	63,977	75,493	90,592
Total assets	**832,160**	**1,121,597**	**1,335,416**	**1,533,716**
BVPS (INR)	40.2	43.2	46.3	50.0
Credit growth		8.1	16.7	23.5
Deposit growth		389.2	26.0	35.0
EA growth		34.0	19.2	14.6
C-D ratio		122.9	113.8	104.2
Low-cost deposits		5.2	11.0	12.0
Provision coverage	62.8	62.6	60.4	60.6
Gross NPA ratio	6.2	3.0	3.7	3.5
Net NPA ratio	2.4	1.2	1.5	1.4
Incremental slippage	0.4	1.4	2.5	1.0
Net NPA / Equity	8.4	3.9	5.4	6.0
Capital adequacy	22.0	18.9	18.7	16.8
- Tier 1	21.5	18.5	18.3	16.4

RoE decomposition (%)

Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	2.3	2.2	1.7	2.1
Fees/Assets	0.4	0.5	0.5	0.5
Invst. profits/Assets	0.7	0.6	1.0	0.7
Net revenues/assets	3.4	3.3	3.2	3.3
Operating expense/assets	(1.4)	(1.4)	(1.4)	(1.5)
Provisions/assets	(0.1)	(0.3)	-	(0.1)
Taxes/assets	(0.7)	(0.5)	(0.6)	(0.6)
Total costs/assets	(2.1)	(2.2)	(2.0)	(2.2)
ROA	1.3	1.1	1.2	1.2
Equity/assets	18.3	15.4	13.2	12.2
ROAE (%)	6.9	7.2	9.0	9.7

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	1.4	3.0	4.0	4.7
Y-o-Y growth (%)		*118.0*	*33.8*	*16.6*
BV per share (INR)	40.2	43.2	46.3	50.0
Adj. BV per share (INR)	37.8	42.0	44.6	47.9
Diluted P/E (x)	41.5	19.0	14.2	12.2
P/B (x)	1.4	1.3	1.2	1.1
Price/ Adj. BV (x)	1.5	1.4	1.3	1.2
Dividend Yield (%)	0.4	1.3	1.4	1.6

Peer comparison valuation

	Market cap	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	**(USD mn)**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
IDFC Bank	2,999	14.2	12.2	1.3	1.2	9.0	9.7
Axis Bank	17,910	25.8	13.3	2.3	2.0	7.9	14.1
DCB Bank	844	20.3	16.5	2.2	1.9	11.8	11.9
Federal Bank	3,591	20.6	16.5	2.0	1.8	10.6	10.9
HDFC Bank	71,557	25.2	20.8	4.5	3.8	18.9	19.5
ICICI Bank	29,615	16.1	11.7	2.5	2.2	11.9	14.9
IndusInd Bank	14,941	26.4	21.0	4.2	3.6	16.5	17.9
Karnataka Bank	906	8.6	7.1	0.9	0.8	9.6	10.8
Kotak Mahindra Bank	29,920	33.1	26.9	4.3	3.7	14.5	14.6
South Indian Bank	870	13.9	7.6	1.4	1.1	8.6	14.5
Yes Bank	11,699	18.1	13.5	3.1	2.6	17.6	20.2
Median	-	20.3	13.5	2.3	2.0	11.8	14.5
AVERAGE	-	20.2	15.2	2.6	2.3	12.4	14.5

Source: Edelweiss research

Additional Data

Directors Data

Veena Mankar	Non-Executive Chairperson	Rajiv Lall	Founder MD & CEO
Abhijit Sen	Director	Ajay Sondhi	Director
Anindita Sinharay	Director	Rajan Anandan	Director
Anand Sinha	Director	Avtar Monga	Director
Sunil Kakar	Director		

Auditors - Deloitte Haskins & Sells

Holding - Top 10

	Perc. Holding		Perc. Holding
Government of India	7.68	Sipadan Investments Mauritius	4.42
Commonwealth Bank of Australia	3.70	Orbis SICAV Asia ex-Japan Fund	1.67
Platinum International Fund	1.29	BlackRock	1.29
Vanguard Group	1.27	Capital Group Companies	1.09
Kotak Mahindra	0.63	HSBC	0.63

**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
15 May 2017	Vikram Limaye	Sell	50000.00
12 May 2017	Praveen Khurana	Sell	15000.00
08 May 2017	Vikram Limaye	Sell	100000.00
20 Mar 2017	Praveen Khurana	Sell	25000.00
06 Mar 2017	R. Mohankumar	Sell	143971.00

**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	SP	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	SP	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	SP	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

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-Oct-17	**Yes Bank**	Intrinsic strength shines amidst stress; *Result Update*	331	Buy
27-Oct-17	**MMFS**	Core steady; NPL transitioning hits earnings ; *Result Update*	417	Hold
25-Oct-17	**Kotak Mahindra Bank**	Growth perking up; asset quality stable; *Result Update*	1,011	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

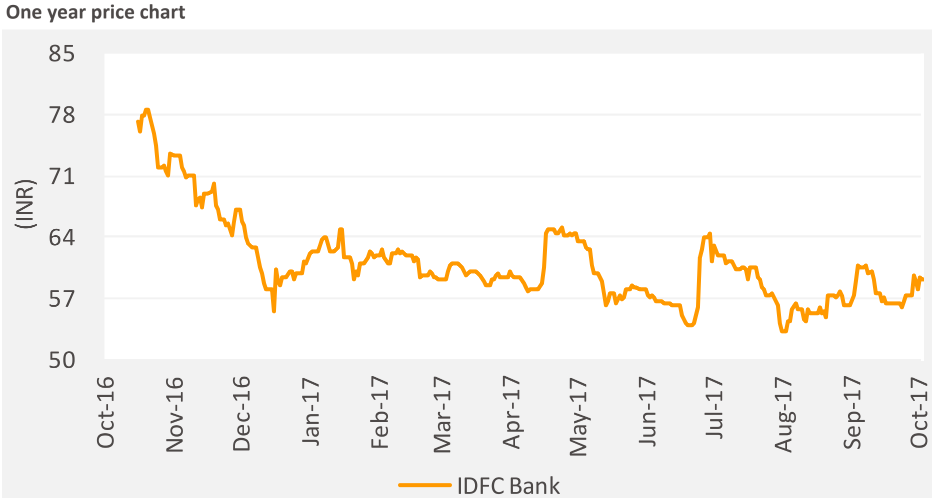
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 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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