RESULT UPDATE

INDUSIND BANK

Extending the good run

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India Equity Research| Banking and Financial Services

In Q2FY18, IndusInd Bank (IIB) continued to clock consistent and operationally strong earnings despite a volatile environment. Key positives: a) CASA: Savings growth accelerated (up >95% YoY, >25% QoQ) leading to >42% CASA ratio (surpassing 40% target set for FY20); b) despite funding cost benefit, NIMs were kept steady (at 4%) in a bid to move up the quality curve; c) in line with Phase-4 target, benefits of operating efficiency have started to play out; d) GNPLs were stable at 1.08%, with slippages curtailed at 1.7% (2.2% in Q1FY18) and credit cost at sub-40bps despite enhancing coverage to 65% towards accounts in RBI's 2 lists; and e) robust core fee income at >23% led to >25% YoY core operating surge. We believe, IIB is structurally poised to achieve Phase-4 targets and repeat success of earlier phases. Merger with BhaFin may increase volatility, but MFI book will still be at a manageable ~10% of loans. Given strong track record, superior RoA and well-capitalised position, execution risks are minimal. Maintain 'BUY'.

Asset quality stable; shift to better rated corporate sustained

Asset quality was stable with slippages curtailed at ~INR5bn (1.7%), leading to steady GNPL of 1.08%. Overall stress (GNPLs + restructured book) was broadly stable at 1.25%. Furthermore, IIB's cumulative exposure to accounts referred by RBI (first & second list) is INR3.85bn, for which the bank has made adequate provisions (65%). Hence, major follow up action is not expected. Rise in the proportion of A and above rated corporate (~59% versus 52% in FY16) is encouraging.

Core revenue momentum, efficiency gains aid operating profitability

Core profitability improved with loan growth at >24% YoY, aided by secular growth across segments—corporate up 26% and non-vehicle retail up >35% YoY; however, vehicle growth was soft at 17%. This, in conjunction with stable NIMs and efficiency gains (C/I ratio at <46%), supported core profitability. IIB expects loan tilt towards consumer finance to start yielding results in H2FY18. With diversified growth levers, we expect the bank to swiftly capitalise on recovery momentum.

Outlook and valuations: Strong execution; maintain 'BUY'

IIB has delivered yet another strong quarter. More commendable is that it is now delivering a mix of high & stable earnings growth, balance sheet has strengthened and the outlook is favourable. This is likely to lead to highest end of private bank valuations. Hence, we raise target multiple to 4.2x (from 3.8x) FY19E P/BV, leading to revised TP of INR1,920 (earlier INR1,734). We maintain **'BUY/SP'**.

Financials **(INR mn)**

Year to March	Q2FY18	Q2FY17	*Growth %*	Q1FY18	*Growth %*	FY17	FY18E	FY19E
Net revenue	30,086	24,307	*23.8*	29,413	*2.3*	1,02,341	1,25,128	1,53,544
Net profit	8,801	7,043	*25.0*	8,365	*5.2*	28,679	36,655	46,072
Dil. EPS (INR)	14.5	11.7	*24.4*	13.9	*4.9*	47.9	61.3	77.0
Adj. BV (INR)						340.0	389.3	453.3
Price/ Adj book (x)						5.1	4.5	3.8
Price/ Earnings (x)						36.4	28.4	22.6

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 1,743
Target Price	: INR 1,920
52-week range (INR)	: 1,818 / 1,037
Share in issue (mn)	: 598.8
M cap (INR bn/USD mn)	: 1,044 / 16,035
Avg. Daily Vol.BSE/NSE('000)	: 1,223.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	15.0	15.0	15.0
MF's, FI's & BK's	12.7	12.7	12.3
FII's	43.1	43.1	43.3
Others	29.2	29.2	29.4

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

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	0.1	0.0	(1.9)
3 months	10.5	2.9	2.2
12 months	42.7	15.9	23.8

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Table 1: Key takeaways from Q2FY18 earnings

(INR mn)	Q2FY18	Q2FY17	Growth (%)	Q1FY18	Growth (%)	Comments
Net interest income	18,210	14,603	*24.7*	17,741	*2.6*	*Broadly in line with estimates, secular loan growth and superior NIMs suggest continued momentum on the same*
Other income	11,876	9,704	*22.4*	11,673	*1.7*	*Core fee income growth saw improving trend.*
Operating expenses	13,751	11,491	*19.7*	13,528	*1.6*	*Focus to reap in efficiency benefits, aims to reduce C/I ratio by 2 percentage points over 3 years on cost benefits*
Staff expense	4,450	3,758	*18.4*	4,222	*5.4*	
Other opex	9,300	7,733	*20.3*	9,306	*(0.1)*	
Pre prov Op profit (PPP)	16,335	12,817	*27.5*	15,885	*2.8*	
Provisions	2,938	2,139	*37.3*	3,100	*(5.2)*	*Asset quality was broadly stable with credit cost curtailed at 17bps.Despite bank providing INR350mn during the quarter towards second list of accounts doled out by RBI*
Profit before tax	13,398	10,678	*25.5*	12,786	*4.8*	
Provision for tax	4,597	3,635	*26.4*	4,420	*4.0*	
Profit after tax	8,801	7,043	*25.0*	8,365	*5.2*	
EPS (INR)	14.5	11.7	*24.4*	13.9	*4.9*	*The management estimates suggested that IFRS impact on EPS would be limited to INR1.5/share on annualised basis*
Balance sheet (INR bn)	0.1	0.1	0.1	0.1	0.1	
Advances	1,232	989	*24.5*	1,164	*5.8*	*Move towards better rated portfolio sustained. Secular growth driven by corporate segments (up 26% YoY, market share gain) and retail segment (up 22% YoY). Non-vehicle portfolio maintained traction. Bank expect loan tilt towards consumer finance to start playing in H2FY18*
Deposits	1,414	1,123	*25.9*	1,337	*5.8*	
CD Ratio (%)	87.1	88.1		87.1		
Asset quality						
Gross NPA	13,453	8,990	*49.6*	12,717	*5.8*	
Net NPA	5,369	3,692	*45.4*	5,083	*5.6*	
Gross NPA (%)	1.1	0.9		1.1		*Slippages were curtailed at 1.7% (2.2% in previous quarter) leading to steady GNPLs*
Net NPA (%)	0.4	0.4		0.4		
Provision coverage	60.1	58.9		60.0		
Restructured book	0.2	0.4		0.2		
Overall stress assets	1.2	1.3		1.3		*Overall stress asset broadly stable*

Source: Company, Edelweiss research

Table 2: Loan growth continues to be strong suggesting market share gains; significant scale up in CASA ratio

(INR mn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Advances	7,82,939	8,21,670	8,84,193	9,36,780	9,89,491	10,27,700	11,30,805	11,64,070	12,31,808
YoY (%)	30.6	28.7	28.5	29.7	26.4	25.1	27.9	24.3	24.5
QoQ (%)	8.4	4.9	7.6	5.9	5.6	3.9	10.0	2.9	5.8
Deposits	8,08,405	8,64,230	9,30,003	10,17,680	11,23,133	11,92,180	12,65,722	13,36,730	14,14,406
YoY (%)	22.5	24.6	25.4	31.0	38.9	37.9	36.1	31.4	25.9
QoQ (%)	4.1	6.9	7.6	9.4	10.4	6.1	6.2	5.6	5.8
CD ratio (%)	96.8	95.1	95.1	92.1	88.1	86.2	89.3	87.1	87.1
CASA (%)	34.7	35.0	35.2	34.4	36.5	37.1	36.9	37.8	42.0

Table 3: NIMs maintained at aspired 4% mark

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Yield on Advances	12.7	12.4	12.1	12.0	12.1	11.9	11.7	11.4	11.5	11.3
Cost of deposits	7.6	7.4	7.2	7.1	6.9	6.6	6.4	6.1	6.2	5.9
NIMs	3.7	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.0

Table 4: Core fee income supported by distribution fees

(INR mn)	Q2FY18	Q2FY17	*YoY (%)*	Q1FY18	*QoQ (%)*
Trade Fees (LC, BG, Remittances)	1,280	1,025	*24.9*	1,310	*(2.3)*
Processing Fees & other charges	2,140	2,015	*6.2*	1,960	*9.2*
FX – Client	1,830	1,556	*17.6*	1,980	*(7.6)*
TPP (Insurance ,MF ,etc)	2,370	1,558	*52.1*	2,100	*12.9*
Investment Banking Income	1,860	1,608	*15.7*	1,750	*6.3*
Gen. Bkg. / Other Income	650	494	*31.5*	640	*1.6*

Table 5: Headine asset quality stable

(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Opening 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	0.7	0.7	0.7	0.8	0.9
CFD	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Additions	0.2	0.3	0.3	0.3	0.3	0.3	0.6	0.5	0.4
CCB	0.2	0.2	0.2	0.2	0.1	0.2	0.7	0.5	0.4
CFD	0.4	0.4	0.5	0.4	0.5	0.4	0.4	0.5	0.4
Deductions	0.2	0.2	0.2	0.2	0.2	0.2	0.5	0.3	0.3
CCB	0.1	0.1	0.1	0.1	0.1	0.1	0.6	0.3	0.2
CFD	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.6
Closing gross NPA	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.1	1.1
CCB	0.5	0.6	0.7	0.8	0.7	0.8	0.8	1.0	1.1
CFD	1.1	1.1	1.1	1.1	1.2	1.2	1.1	1.3	1.1

Table 6: GNPAs decline across category

(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
CV	1.1	1.1	1.0	1.1	1.1	1.0	1.0	1.1	1.0
Utility	1.0	1.0	1.2	1.3	1.2	1.1	1.1	1.4	1.4
Const equip	1.6	1.5	1.3	1.4	1.4	1.2	1.2	1.1	1.0
Small CV	0.8	0.8	1.0	1.1	1.0	0.8	0.9	1.3	1.1
2W	2.8	3.0	3.0	3.2	3.6	3.6	3.5	3.6	3.6
Cars	0.4	0.4	0.5	0.5	0.5	0.8	0.7	0.7	0.7

Source: Company

Table 7: Loan book composition

(%)	Q315	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Commercial vehicles	15.7	15.4	15.8	15.8	16.1	15.9	16.1	15.8	15.9	15.4	15.2	15.1
Utility vehicles	3.2	2.9	2.8	2.6	2.5	2.3	2.2	2.2	2.2	2.1	2.1	2.0
Cars	4.7	4.6	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.1	4.1	4.1
Small CV	7.4	6.8	6.5	6.1	6.1	5.8	5.6	5.5	5.6	5.0	4.8	4.6
Equipments	4.4	4.1	3.9	3.7	3.7	3.7	3.7	3.6	3.8	3.6	3.8	3.7
Others (home and personal)	7.0	7.5	8.0	8.1	8.7	9.2	9.3	9.5	9.9	10.0	10.5	10.5
Loan to large corporates	29.3	29.0	29.7	26.5	26.8	28.6	29.2	27.9	27.5	27.8	28.4	29.3
Loan to mid corporates	16.6	16.7	16.5	20.6	19.5	18.8	18.3	19.5	19.2	19.6	19.5	19.1
Loan to small businesses	11.8	13.0	12.3	12.0	12.0	11.3	11.4	11.6	11.6	12.3	11.7	11.4

Table 8: Strong low cost deposit accretion

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
CA	16.6	16.1	16.3	16.6	15.7	18.2	15.9	15.5	14.2	13.9
SA	18.0	18.6	18.7	18.5	18.8	18.3	21.1	21.4	23.6	28.4

Chart 1: Core fee growth traction improved

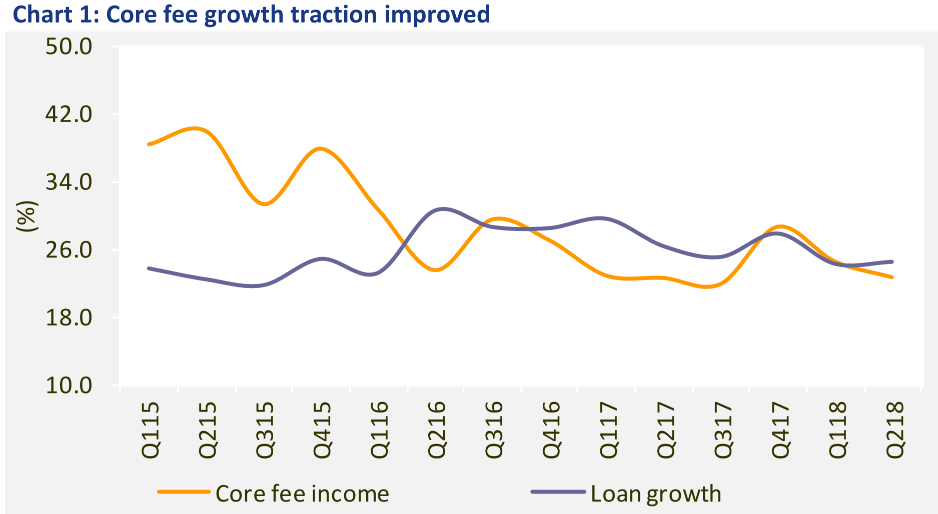
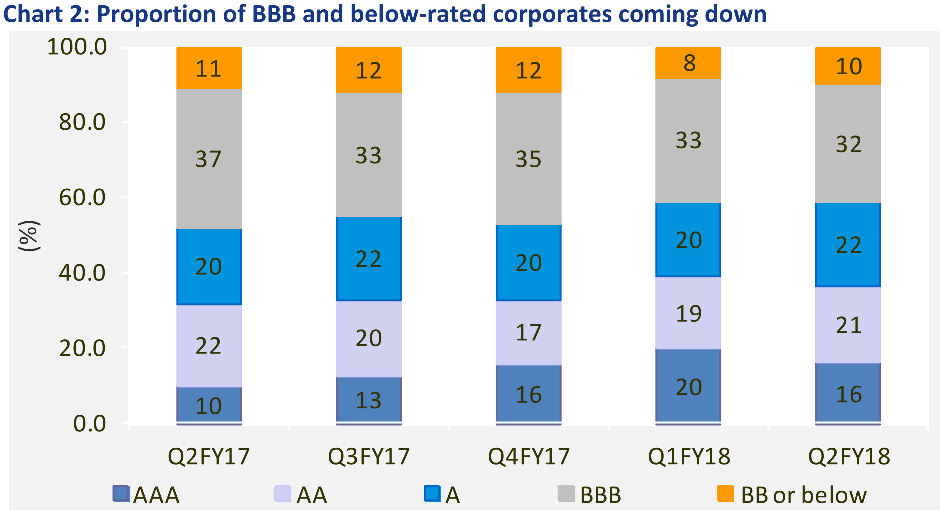


Chart 2: Proportion of BBB and below-rated corporates coming down



Source: Company

Financial snapshot (INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Interest income	42,084	34,857	*20.7*	41,355	*1.8*	83,439	172,881	208,272
Interest exp	23,874	20,254	*17.9*	23,615	*1.1*	47,488	97,319	114,884
Net int. inc. (INR mn)	18,210	14,603	*24.7*	17,741	*2.6*	35,951	75,563	93,388
Other income	11,876	9,704	*22.4*	11,673	*1.7*	23,548	49,566	60,156
Net revenues	30,086	24,307	*23.8*	29,413	*2.3*	59,499	125,128	153,544
Operating expenses	13,751	11,491	*19.7*	13,528	*1.6*	27,279	58,224	70,940
Staff costs	4,450	3,758	*18.4*	4,222	*5.4*	8,672	19,124	23,138
Other opex	9,300	7,733	*20.3*	9,306	*(0.1)*	18,606	39,101	47,802
Pre prov op profit(ppop)	16,335	12,817	*27.5*	15,885	*2.8*	32,220	66,904	82,605
Provisions	2,938	2,139	*37.3*	3,100	*(5.2)*	6,037	11,924	13,500
Profit before tax	13,398	10,678	*25.5*	12,786	*4.8*	26,183	54,980	69,104
Provision for taxes	4,597	3,635	*26.4*	4,420	*4.0*	9,017	18,325	23,033
PAT	8,801	7,043	*25.0*	8,365	*5.2*	17,167	36,655	46,072
Diluted EPS (INR)	14.5	11.7	*24.4*	13.9	*4.9*	28.4	61.3	77.0
Ratios								
NII/GII (%)	43.3	41.9		42.9		43.1	43.7	44.8
Cost/income (%)	45.7	47.3		46.0		45.8	46.5	46.2
Provisions / PPOP	18.0	16.7		19.5		18.7	17.8	16.3
Tax rate (%)	34.3	34.0		34.6		34.4	33.3	33.3
Bal. sheet data (INRbn)								
Advances	1,232	989	*24.5*	1,164	*5.8*	1,232	1,414	1,767
Deposits	1,414	1,123	*25.9*	1,337	*5.8*	1,414	1,500	1,922
CD Ratio	87	88		87		87	94	92
Prov. coverage (%)	60.1	58.9		60.0		60.1	63.3	65.4
Asset quality								
Gross NPA	13,453	8,990	*49.6*	12,717	*5.8*	13,453	15,658	22,756
Gross NPA (%)	1.1	0.9		1.1		1.1	1.1	1.3
Net NPA	5,369	3,692	*45.4*	5,083	*5.6*	5,369	5,752	7,881
Net NPA (%)	0.4	0.4		0.4		0.4	0.4	0.4
Adj book value / share							389.3	453.3
Price/ Adj. book (x)							4.5	3.8
Price/ Earnings							28.4	22.6

IndusInd Bank – Q2FY18 earnings call takeaways

With respect to asset quality

- Slippages came in at INR4.98bn (1.7% versus run-rate of 2.2% in previous quarter). The overall stress (GNPLs plus restructured book) was broadly stable at 1.25% (stable QoQ)
- In terms of the second list of accounts given out by RBI. ***The bank had exposure towards 8 accounts (of which 1 account is about to be restructured and 1 account is single digit exposure), further of the balance 6 accounts (already NPLs) the bank has exposure of INR3.85bn towards which they have already provided to 65% range. The bank provided INR350mn during the quarter (there is no major further provisions expected).*** Further bank has not used any of the floating provisions that was made last quarter (of INR700mn)
- No material changes in the watch list (detailed study conducted on entire balance sheet including renewable business). Infact there has been some down trending in mid-corporates and corporate watclist as bank has been moving up the quality quotient.
- The bank has ***NO*** exposure to ***RCOM***.
- SRs – INR4.07bn (INR3.57bn in previous quarter), this is net carrying value.

With respect to growth

- Loan book growth was pegged at 24.5% YoY /5.8% QoQ , largely driven by 26% growth in corporate finance and 22% growth in vehicle finance. September disbursement in Vehicle has been much higher and thus expect the growth in vehicle segment to normalise, expect growth to gain traction in H2FY18. Generally the corporate growth is supported by market share gains within the financial services, further some traction is seen in renewable (INR10bn only to large sponsors) and power transmission segment.
- The CASA improvement is driven by a) Maturity of branches (> 75% of branches are over 2 years and there is exponential increase post 2 years) b) Good improvement in Home market c) Improvement in acquisition quality of business d) Deepeing has started to crystalise and e) Government business Is big focus which has done well (this includes gram panchayat accounts, farmers accounts and thus these are also retail).
- Will continue to evaluate the rate in the savings account. There is no major impact seen in the savings accretion even while twinkering the rates across bucket. Currently the bank is offering rates across 4 buckets a) Upto INR10lakhs : 4%, b) Upto 10 mn: 5% , 3) Upto 100mn: 5.5% 4) Over INR100mn : 6%. The major flows are coming in INR0.1mn to INR100mn bucket which are largely retail.
- ***In terms of deal with Bharat Financials they have mentioned that the deal is still under consideration and process of due-diligence is still on.*** The cross sell business (especially deposits) could offer a very significant potential for MFI clients. Further the merger could help leap frog the presence in rural segment (currently 300-350 rural branches) while BhaFin has >1400 branches.

Other highlights

- Client base crossed of 10mn (aims it to double it to 20mn) during Phase IV.
- 15% of the savings book was government (last quarter it was12%).
- ***Reduction in corporate bank yields is due to some higher re-payments.***

- **Impact of IFRS:** There is no major disconnect while transaction in IFRS. The broad math suggest EPS impact of 1.5.
- NIMs were stable at 4%
- Gems and Jew business is stable, the quality of the portfolio is very good. The growth has also be very good (up > 25% YoY)

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).

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 1250 branches, and 2146 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 ~15.1%) 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

The bank plans to sustain the desired CASA growth by expanding its branch network. Risk emanates from the fact that if the bank is not able to sustain the momentum while achieving 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 %)	7.9	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
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	5.7
Net interest margins	3.9	4.1	4.2	4.2
Cost of deposits	6.8	6.3	5.9	5.7
Cost of borrowings	6.7	6.7	6.6	6.8
Spread	3.5	3.7	3.7	3.8
Balance sheet assumption (%)				
Credit growth	28.1	28.1	24.9	24.9
Deposit growth	25.4	36.1	18.5	28.1
SLR ratio	21.9	21.1	21.0	21.0
Low-cost deposits	35.2	36.9	43.9	45.1
Net NPA ratio	0.4	0.4	0.4	0.4
Net NPA / Equity	1.8	2.1	2.4	2.8
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	63.3	65.4

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	115,807	144,057	172,881	208,272
Interest expended	70,641	83,431	97,319	114,884
Net interest income	45,166	60,626	75,563	93,388
Non interest income	32,970	41,715	49,566	60,156
- Fee & forex income	30,685	38,149	47,502	58,065
- Misc. income	762	766	264	291
- Investment profits	1,523	2,801	1,800	1,800
Net revenue	78,135	102,341	125,128	153,544
Operating expense	36,721	47,831	58,224	70,940
- Employee exp	12,361	15,210	19,124	23,138
- Other opex	24,360	32,621	39,101	47,802
Preprovision profit	41,414	54,510	66,904	82,605
Provisions	6,717	10,909	11,924	13,500
Loan loss provisions	6,137	10,501	11,924	13,500
Investment depreciation	295	314	-	-
Other provisions	286	94	-	-
Profit Before Tax	34,697	43,601	54,980	69,104
Less: Provision for Tax	11,833	14,922	18,325	23,033
Profit After Tax	22,865	28,679	36,655	46,072
Reported Profit	22,865	28,679	36,655	46,072
Adj. Diluted EPS (INR)	38.4	47.9	61.3	77.0
Dividend per share (DPS)	4.5	6.0	9.0	9.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth	32.1	34.2	24.6	23.6
Fees growth	27.2	24.3	24.5	22.2
Opex growth	27.9	30.3	21.7	21.8
PPOP growth	33.8	29.6	25.9	24.1
PPP growth	33.7	31.6	22.7	23.5
Provisions growth	72.7	62.4	9.3	13.2
Adjusted Profit	27.5	25.4	27.8	25.7

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	5.7
Net interest margins	3.9	4.1	4.2	4.2
Cost of deposits	6.8	6.3	5.9	5.7
Cost of borrowings	6.7	6.7	6.6	6.8
Spread	3.5	3.7	3.7	3.8
Cost-income	47.0	46.7	46.5	46.2
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	230,878	270,693
Net worth	176,960	206,461	236,860	276,675
Sub bonds/pref cap	-	-	500	1,000
Deposits	930,004	1,265,722	1,500,020	1,921,503
Total Borrowings	221,559	224,537	230,331	259,294
Other liabilities	73,758	91,877	47,345	59,670
Total liabilities	**1,402,280**	**1,788,597**	**2,015,055**	**2,518,142**
Loans	884,194	1,130,805	1,413,506	1,766,883
Cash and Equivalents	101,119	186,283	114,416	145,285
Gilts	252,680	314,523	363,374	457,967
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	48,152	60,687
Total assets	**1,402,280**	**1,788,597**	**2,015,055**	**2,518,142**
BVPS (INR)	297.4	345.2	396.0	462.6
Credit growth	28.1	28.1	24.9	24.9
Deposit growth	25.4	36.1	18.5	28.1
EA growth	24.2	29.8	16.0	25.1
SLR ratio	21.9	21.1	21.0	21.0
C-D ratio	97.0	91.3	96.3	93.8
Low-cost deposits	35.2	36.9	43.9	45.1
Provision coverage	58.6	58.4	63.3	65.4
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	2.4	2.8
Capital adequacy	14.6	13.8	14.3	13.3
- Tier 1	14.9	14.7	13.4	13.1

RoE decomposition (%)

Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	3.9	4.1	4.2	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)	(3.2)
Provisions/assets	(0.6)	(0.7)	(0.7)	(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	2.1
Equity/assets	12.1	12.9	12.2	11.7
ROAE (%)	16.1	15.0	16.5	17.9

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	38.4	47.9	61.3	77.0
Y-o-Y growth (%)	*13.4*	*24.8*	*27.8*	*25.7*
BV per share (INR)	297.4	345.2	396.0	462.6
Adj. BV per share (INR)	293.6	340.0	389.3	453.3
Diluted P/E (x)	45.4	36.4	28.4	22.6
P/B (x)	5.9	5.0	4.4	3.8
Price/ Adj. BV (x)	5.9	5.1	4.5	3.8
Dividend Yield (%)	0.3	0.3	0.5	0.5

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	16,035	28.4	22.6	4.5	3.8	16.5	17.9
Axis Bank	19,342	19.3	12.4	2.4	2.1	11.2	15.8
DCB Bank	892	22.2	18.4	2.3	2.1	11.5	11.5
Federal Bank	3,534	18.9	15.1	1.9	1.8	11.4	11.7
HDFC Bank	72,131	26.5	21.9	4.6	3.9	18.2	19.0
ICICI Bank	26,373	14.4	10.5	2.2	1.9	11.9	14.9
Karnataka Bank	888	8.1	6.7	0.9	0.8	10.0	11.2
Kotak Mahindra Bank	30,933	34.6	28.2	4.4	3.9	14.5	14.5
Yes Bank	12,856	3.9	2.9	0.7	0.6	18.2	20.3
Median	-	19.3	15.1	2.3	2.1	11.9	14.9
AVERAGE	-	19.6	15.4	2.7	2.3	13.7	15.2

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

*as per last annual report

Holding - Top 10

	Perc. Holding		Perc. Holding
Bridge India Fund	3.51	J.P. Morgan Chase & Co.	3.47
Birla Sun Life Asset Management	2.35	Dia Afrin	1.52
UTI Asset Management	1.48	Schroders plc	1.24
ICICI Prudential Life Insurance	1.22	Tybourne Eq Master Fund	1.21
Kotak Mahindra	1.17	SBI Fund Management	1.17

*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	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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Date: 2017.10.12 21:06:23 +05'30'

Coverage group(s) of stocks by primary analyst(s):

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
12-Oct-17	**Insurance**	Insurance premiums: Sustains rising trend; *Sector Update*		
10-Oct-17	**South Indian Bank**	Core improving; one-off provisions dent earnings; *Result Update*	30	Buy
04-Oct-17	**Banking**	New lending framework: Move towards external benchmark; *Sector Update*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

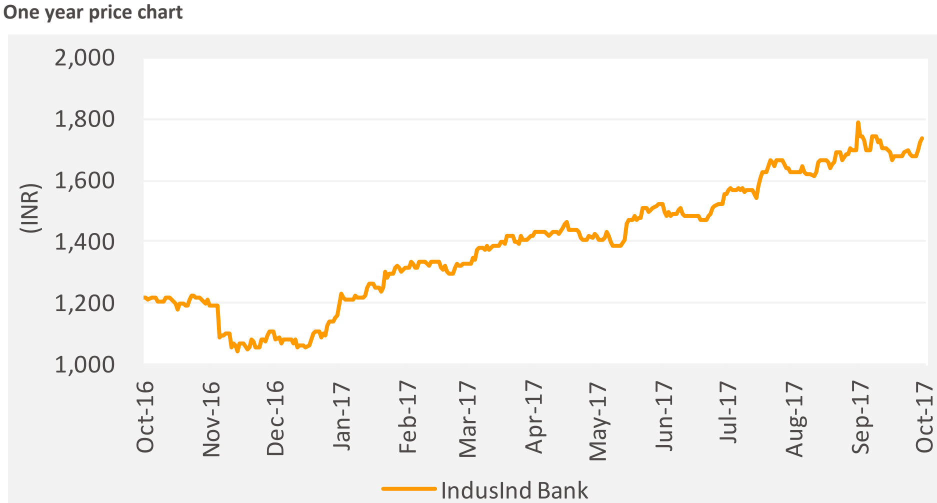
* 1stocks under review

	> 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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