

# INDUSIND BANK

## Retail growth re-emerging to fore

India Equity Research | Banking and Financial Services

IndusInd Bank's (IIB) Q3FY18 PAT of INR9.4bn (up 25% YoY) was broadly in line with estimates. However, revenue momentum came in marginally below estimate (Nil up 20% YoY), with earnings supported by lower credit cost. Key positives: a) CASA - Savings growth accelerated (up 68% YoY), leading to ~43% CASA ratio (surpassing 40% target set for FY20); b) retail credit, particularly vehicle financing, is showing strong momentum; c) in line with Phase-4 target, benefits of operating efficiency have started to play out; d) GNPLs were contained at 1.16% with slippage of 1.3% (1.7% in Q2FY18). Key monitorables: a) some moderation in revenue traction (given likely pressure on yields); b) RBI's divergence report (still pending); and c) merger with BhaFin (likely conclusion in Q2FY19). We believe IIB is structurally poised to achieve Phase-4 targets and see encore of success of earlier phases. Given strong track record, superior RoA and well-capitalised position, execution risks are minimal. We roll forward to FY20 estimates and maintain 'BUY' with a revised TP of INR2,020 (INR1,920 earlier), on 3.8x FY20E P/ABV.

### Asset quality stable; shift to better rated corporate sustained

Slippages were curtailed at ~INR4bn (1.3%), but softer recovery pushed GNPLs up to INR15bn (up 11% QoQ). Overall stress (GNPLs + restructured book) was stable at 1.31% (1.25% in Q2FY18). Credit cost was at 14bps (46bps for 9mFY18 within targeted range of <60bps for FY18). Falling proportion of BBB-and-below rated corporates (<39% vs. >48% as at FY16), leading to lower RWA/assets (~79% vs. 83% earlier) is encouraging.

### Retail growth coming back to fore

Loan growth came in at >25% YoY, aided by secular growth across segments—corporate up 26% and retail up 24% YoY. Impressively, growth in vehicle portfolio seems to be coming back (24% versus <20% earlier). Consequently, proportion of consumer finance (CFD) rose to 40%, with the bank expecting tilt of loan mix towards CFD to continue. On diversified growth levers, we expect IIB to swiftly capitalise on the recovery momentum.

### Outlook and valuations: Stable growth trajectory; maintain 'BUY'

IIB has delivered yet another steady quarter. Even more commendable is that: 1) IIB is now delivering a mix of sustainable earnings growth with granularity; 2) balance sheet has strengthened; and 3) outlook is favourable. We expect superior growth, stable margins and controlled credit costs to help IIB sustain 24% earnings CAGR over FY18-20E. At CMP, the stock trades at 3.2x FY20E P/ABV. We maintain 'BUY/SP'.

#### Financials

(INR mn)

Year to March	Q3FY18	Q3FY17	Growth %	Q2FY18	Growth %	FY17	FY18E	FY19E
Net revenue	30,816	25,952	18.7	30,086	2.4	1,02,341	1,24,597	1,52,356
Net profit	9,362	7,506	24.7	8,801	6.4	28,679	36,527	45,437
Dil. EPS (INR)	15.5	12.5	24.2	14.5	6.4	47.9	61.1	76.0
Adj. BV (INR)						340.0	385.5	450.2
Price/Adj book (x)						5.0	4.4	3.8
Price/Earnings (x)						35.5	27.8	22.4

#### 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 1,700
Target Price	: INR 2,020
52-week range (INR)	: 1,818 / 1,185
Share in issue (mn)	: 599.7
M cap (INR bn/USD mn)	: 1,020 / 16,015
Avg. Daily Vol.BSE/NSE('000)	: 1,244.7

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	15.0	15.0	38.7
MF's, FI's & BK's	12.6	12.6	40.8
FII's	43.0	43.0	-
Others	29.4	29.4	20.5
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	1.8	3.2	0.7
3 months	(1.0)	6.7	6.7
12 months	37.8	27.1	34.4

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**Table 1: Key takeaways from Q3FY18 earnings**

(INR mn)	Q3FY18	Q3FY17	Growth (%)	Q2FY18	Growth (%)	Comments
Net interest income	18,948	15,784	20.0	18,210	4.1	NII growth came in below trend given likely pressure on yields.
Other income	11,868	10,168	16.7	11,876	(0.1)	Other income lower following lower treasury gains. Core fee income growth sustained momentum.
Operating expenses	14,169	12,319	15.0	13,751	3.0	In line with Phase-4 target, benefits of operating efficiency have started to play out
Staff expense	4,600	3,940	16.7	4,450	3.4	
Other opex	9,569	8,378	14.2	9,300	2.9	
Pre prov Op profit (PPP)	16,647	13,633	22.1	16,335	1.9	
Provisions	2,362	2,169	8.9	2,938	(19.6)	Asset quality was broadly stable with credit cost curtailed at 14bps (46bps for 9mFY18 within targeted range of <60bps for FY18)
Profit before tax	14,285	11,465	24.6	13,398	6.6	
Provision for tax	4,923	3,959	24.4	4,597	7.1	
Profit after tax	9,362	7,506	24.7	8,801	6.4	
EPS (INR)	15.5	12.5	24.2	14.5	6.4	
<b>Balance sheet (INR bn)</b>						
Advances	1,285	1,028	25.1	1,232	4.4	Move towards better rated portfolio sustained. Secular growth driven by corporate segments (up 26% YoY, market share gain) and retail segment (up 24% YoY). Impressively vehicle growth has gained traction. Bank expect loan tilt towards consumer finance to sustain.
Deposits	1,461	1,192	22.5	1,414	3.3	
CD Ratio (%)	88.0	86.2		87.1		
<b>Asset quality</b>						
Gross NPA	14,987	9,716	54.2	13,453	11.4	
Net NPA	5,922	4,007	47.8	5,369	10.3	
Gross NPA (%)	1.2	0.9		1.1		Slippages were curtailed at 1.3% (1.7% in previous quarter), but softer recovery pushed GNPLs up.
Net NPA (%)	0.5	0.4		0.4		
Provision coverage	60.5	58.8		60.1		
Restructured book	0.2	0.4		0.2		
Overall stress assets	1.3	1.4		1.3		Overall stress asset broadly stable

Source: Company, Edelweiss research

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

(INR mn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
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	12,85,400
YoY (%)	30.6	28.7	28.5	29.7	26.4	25.1	27.9	24.3	24.5	25.1
QoQ (%)	8.4	4.9	7.6	5.9	5.6	3.9	10.0	2.9	5.8	4.4
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	14,60,860
YoY (%)	22.5	24.6	25.4	31.0	38.9	37.9	36.1	31.4	25.9	22.5
QoQ (%)	4.1	6.9	7.6	9.4	10.4	6.1	6.2	5.6	5.8	3.3
CD ratio (%)	96.8	95.1	95.1	92.1	88.1	86.2	89.3	87.1	87.1	88.0
CASA (%)	34.7	35.0	35.2	34.4	36.5	37.1	36.9	37.8	42.0	43.0

**Table 3: NIMs maintained at aspired 4% mark**

(%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Yield on Advances	12.4	12.1	12.0	12.1	11.9	11.7	11.4	11.5	11.3	11.0
Cost of deposits	7.4	7.2	7.1	6.9	6.6	6.4	6.1	6.2	5.9	5.9
NIMs	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0

**Table 4: Core fee income supported by distribution fees**

(INR mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Trade Fees (LC, BG, Remittances)	1,270	1,061	19.7	1,280	(0.8)
Processing Fees & other charges	2,420	1,946	24.3	2,140	13.1
FX – Client	2,020	1,793	12.7	1,830	10.4
TPP (Insurance ,MF ,etc )	2,560	1,812	41.2	2,370	8.0
Investment Banking Income	1,800	1,599	12.6	1,860	(3.2)
Gen. Bkg. / Other Income	700	637	9.9	650	7.7

**Table 5: Slippages curtailed softer recovery momentum pushed GNPLs up**

(%)	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318
Opening 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	0.7	0.7	0.7	0.8	0.9	1.1
CFD	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.0
Additions	0.3	0.3	0.3	0.3	0.3	0.6	0.5	0.4	0.3
CCB	0.2	0.2	0.2	0.1	0.2	0.7	0.5	0.4	0.2
CFD	0.4	0.5	0.4	0.5	0.4	0.4	0.5	0.4	0.5
Deductions	0.2	0.2	0.2	0.2	0.2	0.5	0.3	0.3	0.2
CCB	0.1	0.1	0.1	0.1	0.1	0.6	0.3	0.2	0.1
CFD	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.6	0.4
Closing gross NPA	0.8	0.9	0.9	0.9	0.9	0.9	1.1	1.1	1.2
CCB	0.6	0.7	0.8	0.7	0.8	0.8	1.0	1.1	1.2
CFD	1.1	1.1	1.1	1.2	1.2	1.1	1.3	1.1	1.1

**Table 6: GNPA's broadly steady across segments (ex- CE and 2W)**

(%)	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318
CV	1.1	1.0	1.1	1.1	1.0	1.0	1.1	1.0	0.9
Utility	1.0	1.2	1.3	1.2	1.1	1.1	1.4	1.4	1.3
Const equip	1.5	1.3	1.4	1.4	1.2	1.2	1.1	1.0	1.1
Small CV	0.8	1.0	1.1	1.0	0.8	0.9	1.3	1.1	1.2
2W	3.0	3.0	3.2	3.6	3.6	3.5	3.6	3.6	3.8
Cars	0.4	0.5	0.5	0.5	0.8	0.7	0.7	0.7	0.6

Source: Company

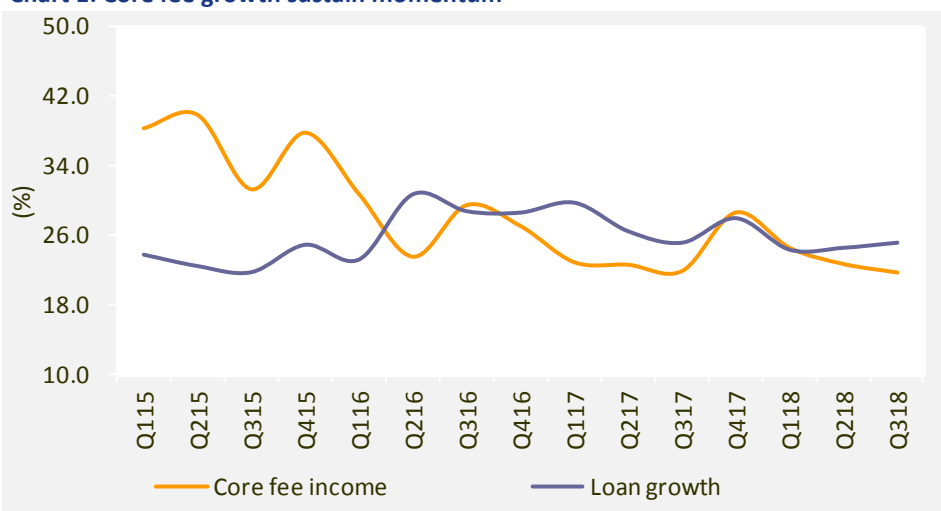
**Table 7: Loan book composition: Rebalancing towards retail portfolio starting to crystalise**

(%)	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318
Commercial vehicles	15.4	15.8	15.8	16.1	15.9	16.1	15.8	15.9	15.4	15.2	15.1	15.9
Utility vehicles	2.9	2.8	2.6	2.5	2.3	2.2	2.2	2.2	2.1	2.1	2.0	2.1
Cars	4.6	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.1	4.1	4.1	4.1
Small CV	6.8	6.5	6.1	6.1	5.8	5.6	5.5	5.6	5.0	4.8	4.6	4.6
Equipments	4.1	3.9	3.7	3.7	3.7	3.7	3.6	3.8	3.6	3.8	3.7	3.9
Others (home and personal)	7.5	8.0	8.1	8.7	9.2	9.3	9.5	9.9	10.0	10.5	10.5	10.7
Loan to large corporates	29.0	29.7	26.5	26.8	28.6	29.2	27.9	27.5	27.8	28.4	29.3	28.5
Loan to mid corporates	16.7	16.5	20.6	19.5	18.8	18.3	19.5	19.2	19.6	19.5	19.1	18.7
Loan to small businesses	13.0	12.3	12.0	12.0	11.3	11.4	11.6	11.6	12.3	11.7	11.4	11.5

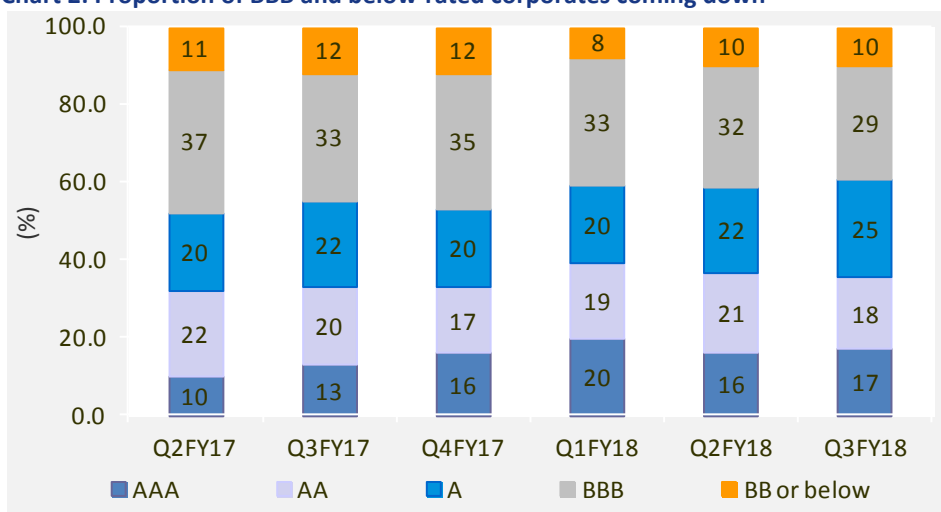
**Table 8: Strong low cost deposit accretion**

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

**Chart 1: Core fee growth sustain momentum**



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



Source: Company

## Financial snapshot

(INR mn)

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	YTD18	FY18E	FY19E
Interest income	42,868	36,993	15.9	42,084	1.9	126,306	172,362	206,545
Interest exp	23,920	21,209	12.8	23,874	0.2	71,408	97,331	114,345
Net int. inc. (INR mn)	18,948	15,784	20.0	18,210	4.1	54,899	75,032	92,200
Other income	11,868	10,168	16.7	11,876	(0.1)	35,416	49,566	60,156
Net revenues	30,816	25,952	18.7	30,086	2.4	90,315	124,597	152,356
Operating expenses	14,169	12,319	15.0	13,751	3.0	41,447	56,762	68,596
Staff costs	4,600	3,940	16.7	4,450	3.4	13,272	18,265	21,900
Other opex	9,569	8,378	14.2	9,300	2.9	28,176	38,496	46,696
Pre prov op profit(ppop)	16,647	13,633	22.1	16,335	1.9	48,867	67,835	83,759
Provisions	2,362	2,169	8.9	2,938	(19.6)	8,399	12,492	14,915
Profit before tax	14,285	11,465	24.6	13,398	6.6	40,468	55,344	68,844
Provision for taxes	4,923	3,959	24.4	4,597	7.1	13,939	18,817	23,407
PAT	9,362	7,506	24.7	8,801	6.4	26,529	36,527	45,437
Diluted EPS (INR)	15.5	12.5	24.2	14.5	6.4	43.9	61.1	76.0

## Ratios

NII/GII (%)	44.2	42.7		43.3		43.5	43.5	44.6
Cost/income (%)	46.0	47.5		45.7		45.9	45.6	45.0
Provisions / PPOP	14.2	15.9		18.0		17.2	18.4	17.8
Tax rate (%)	34.5	34.5		34.3		34.4	34.0	34.0

## Bal. sheet data (INRbn)

Advances	1,285	1,028	25.1	1,232	4.4	1,285	1,414	1,767
Deposits	1,461	1,192	22.5	1,414	3.3	1,461	1,505	1,891
CD Ratio	88	86		87		88	94	93
Prov. coverage (%)	60.5	58.8		60.1		60.5	51.2	62.2

## Asset quality

Gross NPA	14,987	9,716	54.2	13,453	11.4	14,987	17,929	25,027
Gross NPA (%)	1.2	0.9		1.1		1.2	1.3	1.4
Net NPA	5,922	4,007	47.8	5,369	10.3	5,922	8,749	9,459
Net NPA (%)	0.5	0.4		0.4		0.5	0.6	0.5
Adj book value / share							385.5	450.2
Price/ Adj. book (x)							4.4	3.8
Price/ Earnings							27.8	22.4

### Q3FY18 earnings call takeaways

#### With respect to asset quality

- Slippages during the quarter were INR4.08bn (1.3% versus run-rate of 1.7% over last 6 quarter). The slippages were granular with some rise in LAP book. Furthermore, Restructured book was broadly steady at 15bps (INR1.88bn) versus 16bps (INR1.94bn) in previous quarter. The overall stress (GNPLs plus restructured book) came in at 1.3% (versus 1.25% in previous quarter)
- **The RBI divergence report is yet to be finalised, which will happen in Q4FY18.**
- There is no 5:25 refinance, SDR and S4A accounts with the bank. SRs – INR4.4bn (INR4.07bn in previous quarter), this is net carrying value.
- SMA-2 is less than 1% of the book.
- Floating provisions of INR700mn.

#### With respect to growth

- Overall loan book growth of 25% with retail at 24% and corporate at 26%. The retail growth has picked up to 24% (versus 19-20% range earlier), largely driven by vehicle finance segment (disbursement growth of 34%, with 39% growth in CV segment). Within corporate book (loan growth of 26%) the bank is seeing good traction in working capital and some brown fields expansion (power transmission segment).
- Growth in vehicle finance book is showing signs of strong growth momentum. Disbursement in overall Vehicle finance grew 34% YoY and commercial vehicle grew 39%. The good sign is that the growth in vehicle finance is broad based with improvement in 2W, tractors among others).
- **CASA growth momentum continued (up 43%) given continued growth in saving balance (up 64% YoY). The bank has added 300K new to bank (NTB) CASA customers out of the total 500 NTB customers added. The bank aims to achieve 45% CASA ratio by FY20.**
- Core fee income saw continued momentum (up 22%) largely supported by distribution fees (up >40% YoY) and Loan processing fees (up 24% YoY). The Investment bank fees were steady
- There are some pockets in consumer segment (particularly LAP) wherein the spreads have become very competitive.

#### Overall market

- The GDP growth seems to have bottomed out, the early indicators of a) PMI and b) CV sales growth (Growth in vehicle finance book is showing signs of strong growth momentum) are positive.
- After initial hiccup of impact due to Demonetisation and GST, the impact has marginalised to larger extent.
- The bond yields has gone up which has impacted the investment gains. The thing to look forward to is ReCap of PSBs and if they have SLR status then there could be more pressure on bond yields

**Other highlights**

- Digital sourcing very good growth
  - 25% of NTB SA were through tab banking
  - 14% of the customers are acquired digitally.
  - 64% of the personal loans were pre-approved
- The bank highlighted that full time employees / branches has gone down and will continue to do so.
- **The merger is awaiting the approval of RBI , then approval of exchanges and NCLT will be required. The plan is to complete the merger before Q2FY18**
- The bank highlighted that they are evaluating the options of foraying into various aspects of financial savings play (AMCs, life insurance etc) as a manufacturer.
- NIMs were flat at 4%, management expect the NIMs to be stable.
- **Impact of IFRS:** RBI has not given any specific guidelines on IFRS. There is no major disconnect while transaction in IFRS.

### 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 watchlist 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) Deepening has started to crystallise 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 tinkering the rates across bucket. Currently the bank is offering rates across 4 buckets a) Upto INR10laks : 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 was 12%).
- ***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)

### 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 ~15.3% - post capital raising) 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 achieve the desired CASA growth by expanding its branch network. Risk emanates from the fact that if the bank is not able to achieve the desired level of integration among branches then cost may shoot up.

## Financial Statements

### Key Assumptions

Year to March	FY17	FY18E	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
<b>Sector</b>				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
<b>Company</b>				
<b>Op. metric assumpt. (%)</b>				
Yield on advances	11.4	11.0	10.7	10.5
Yield on investments	7.3	7.1	6.8	6.6
Yield on asset	9.7	9.5	9.4	9.3
Cost of funds	5.9	5.8	5.7	5.7
Net interest margins	4.1	4.1	4.2	4.1
Cost of deposits	6.3	5.9	5.7	5.6
Cost of borrowings	6.7	6.6	6.8	6.8
Spread	3.7	3.7	3.7	3.6
<b>Balance sheet assumption (%)</b>				
Credit growth	28.1	24.9	24.9	24.9
Deposit growth	36.1	18.9	25.7	27.2
SLR ratio	21.1	21.0	21.0	21.0
Low-cost deposits	36.9	44.9	46.1	47.4
Net NPA ratio	0.4	0.6	0.5	0.5
Net NPA / Equity	2.1	3.7	3.4	3.4
Capital adequacy	13.8	14.3	13.3	12.3
Incremental slippage	1.6	1.9	1.5	1.5
Provision coverage	58.4	51.2	62.2	66.9

### Income statement

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Interest income	144,057	172,362	206,545	252,816
Interest expended	83,431	97,331	114,345	140,323
Net interest income	60,626	75,032	92,200	112,493
Non interest income	41,715	49,566	60,156	73,099
- Fee & forex income	38,149	47,502	58,065	70,979
- Misc. income	766	264	291	320
- Investment profits	2,801	1,800	1,800	1,800
Net revenue	102,341	124,597	152,356	185,592
Operating expense	47,831	56,762	68,596	82,919
- Employee exp	15,210	18,265	21,900	26,258
- Other opex	32,621	38,496	46,696	56,660
Preprovision profit	54,510	67,835	83,759	102,673
Provisions	10,909	12,492	14,915	17,785
Loan loss provisions	10,501	12,492	14,915	17,785
Investment depreciation	314			
Other provisions	94			
Profit Before Tax	43,601	55,344	68,844	84,888
Less: Provision for Tax	14,922	18,817	23,407	28,862
Profit After Tax	28,679	36,527	45,437	56,026
Reported Profit	28,679	36,527	45,437	56,026
Adj. Diluted EPS (INR)	47.9	61.1	76.0	93.7
Dividend per share (DPS)	6.0	9.0	9.0	9.0
Dividend Payout Ratio(%)		17.1	13.8	11.2

### Growth ratios (%)

Year to March	FY17	FY18E	FY19E	FY20E
NII growth	34.2	23.8	22.9	22.0
Fees growth	24.3	24.5	22.2	22.2
Opex growth	30.3	18.7	20.8	20.9
PPOP growth	29.6	27.7	24.1	23.1
PPP growth	31.6	24.4	23.5	22.6
Provisions growth	62.4	14.5	19.4	19.2
Adjusted Profit	25.4	27.4	24.4	23.3

### Operating ratios

Year to March	FY17	FY18E	FY19E	FY20E
Yield on advances	11.4	11.0	10.7	10.5
Yield on investments	7.3	7.1	6.8	6.6
Yield on assets	9.7	9.5	9.4	9.3
Cost of funds	5.9	5.8	5.7	5.7
Net interest margins	4.1	4.1	4.2	4.1
Cost of deposits	6.3	5.9	5.7	5.6
Cost of borrowings	6.7	6.6	6.8	6.8
Spread	3.7	3.7	3.7	3.6
Cost-income	46.7	45.6	45.0	44.7
Tax rate	34.2	34.0	34.0	34.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18E	FY19E	FY20E	
Share capital	5,982	5,982	5,982	5,982	
Reserves & Surplus	200,480	230,750	269,930	319,700	
Net worth	206,461	236,731	275,912	325,681	
Sub bonds/pref cap	-	500	1,000	1,500	
Deposits	1,265,722	1,504,573	1,891,206	2,404,680	
Total Borrowings	224,537	230,331	263,294	301,783	
Other liabilities	91,877	49,843	44,213	53,688	
<b>Total liabilities</b>	<b>1,788,597</b>	<b>2,021,978</b>	<b>2,475,625</b>	<b>3,087,332</b>	
Loans	1,130,805	1,413,506	1,766,883	2,208,604	
Cash and Equivalents	186,283	117,842	124,011	154,374	
Gilts	314,523	364,330	452,445	568,357	
Others	52,498	62,675	74,888	89,543	
Fixed assets	13,352	12,932	12,432	11,851	
Other Assets	91,136	50,693	44,967	54,604	
<b>Total assets</b>	<b>1,788,597</b>	<b>2,021,978</b>	<b>2,475,625</b>	<b>3,087,332</b>	
BVPS (INR)	345.2	395.8	461.3	544.5	
Credit growth	28.1	24.9	24.9	24.9	
Deposit growth	36.1	18.9	25.7	27.2	
EA growth	29.8	16.3	23.5	24.9	
SLR ratio	21.1	21.0	21.0	21.0	
C-D ratio	91.3	96.0	95.3	93.7	
Low-cost deposits	36.9	44.9	46.1	47.4	
Provision coverage	58.4	51.2	62.2	66.9	
Gross NPA ratio	0.9	1.3	1.4	1.5	
Net NPA ratio	0.4	0.6	0.5	0.5	
Incremental slippage	1.6	1.9	1.5	1.5	
Net NPA / Equity	2.1	3.7	3.4	3.4	
Capital adequacy	13.8	14.3	13.3	12.3	
- Tier 1	14.7	13.4	13.0	12.8	

RoE decomposition (%)		FY17	FY18E	FY19E	FY20E
Year to March					
Net int. income/assets	4.1	4.1	4.2	4.1	
Fees/Assets	2.6	2.6	2.7	2.6	
Invst. profits/Assets	0.2	0.1	0.1	0.1	
Net revenues/assets	6.9	6.8	7.0	6.8	
Operating expense/assets	(3.2)	(3.1)	(3.1)	(3.0)	
Provisions/assets	(0.7)	(0.7)	(0.7)	(0.7)	
Taxes/assets	(1.0)	(1.0)	(1.1)	(1.1)	
Total costs/assets	(4.9)	(4.8)	(4.9)	(4.8)	
ROA	1.9	2.0	2.1	2.1	
Equity/assets	12.9	12.2	11.7	11.1	
ROAE (%)	15.0	16.5	17.7	18.6	

Valuation parameters		FY17	FY18E	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)	47.9	61.1	76.0	93.7	
Y-o-Y growth (%)	24.8	27.4	24.4	23.3	
BV per share (INR)	345.2	395.8	461.3	544.5	
Adj. BV per share (INR)	340.0	385.5	450.2	531.3	
Diluted P/E (x)	35.5	27.8	22.4	18.2	
P/B (x)	4.9	4.3	3.7	3.1	
Price/ Adj. BV (x)	5.0	4.4	3.8	3.2	
Dividend Yield (%)	0.4	0.5	0.5	0.5	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
IndusInd Bank	16,015	27.8	22.4	4.4	3.8	16.5	17.7
Axis Bank	22,504	31.9	16.2	2.3	2.1	7.3	12.2
DCB Bank	976	23.1	18.8	2.5	2.2	11.8	11.9
Federal Bank	3,519	19.6	15.7	1.9	1.7	10.6	10.9
HDFC Bank	76,170	26.3	21.7	4.7	4.0	18.9	19.5
ICICI Bank	31,217	18.4	13.3	2.7	2.4	10.8	13.9
Karnataka Bank	963	9.0	7.4	0.9	0.8	9.6	10.8
Kotak Mahindra Bank	30,441	33.1	26.6	4.3	3.7	14.5	14.8
Yes Bank	12,388	18.7	14.0	3.2	2.7	17.6	20.2
Median		23.1	16.2	2.7	2.4	11.8	13.9
AVERAGE		23.1	17.3	3.0	2.6	13.1	14.7

Source: Edelweiss research

## Additional Data

### Directors Data

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

Auditors - Price Waterhouse Chartered Accountants LLP

### Holding - Top 10

	Perc. Holding		Perc. Holding
J.P. Morgan Chase & Co.	3.59	Bridge India Fund	3.50
Dia Afrin	1.52	UTI Asset Management	1.42
ICICI Prudential Life Insurance	1.35	Blackrock	1.35
Birla Sun Life Asset Management	1.34	Schroders plc	1.25
SBI Fund Management	1.25	Kotak Mahindra	1.13

*\*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

*\*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	HOLD	SP	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

Head of Research

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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
10-Jan-18	<b>South Indian Bank</b>	Core improving; asset quality holds ground; <i>Result Update</i>	32	Buy
28-Dec-17	<b>BFSI</b>	Turning interest rates table: Impact analysis; <i>Sector Update</i>		
26-Dec-17	<b>Kotak Mahindra Bank</b>	Building blocks in place for profitable scale; <i>Visit Note</i>	1,010	Buy

#### Distribution of Ratings / Market Cap

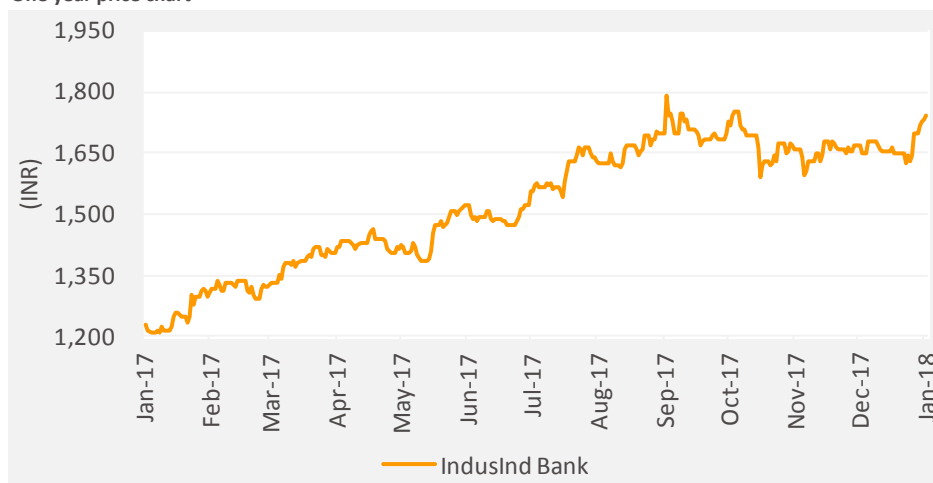
##### Edelweiss Research Coverage Universe

	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
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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