

# INDUSIND BANK

## Sustainable growth with granularity

India Equity Research | Banking and Financial Services



IndusInd Bank's Q1FY19 earnings were in-line with expectations and reaffirms our confidence that the bank is structurally poised to achieve Phase IV targets and achieve scale with quality. Loan growth momentum of 29% (more broad-based), sustained CASA (SA grew >50% YoY), and operating leverage supported 20% YoY NII and >27% YoY operating profit growth. MTM loss of INR860mn fed into softer PAT growth of 24%. Asset quality was steady with slippages at 1.3%, credit cost at 14bps and GNPLs at 1.15%. Key monitorables will be: a) below trend core fee income growth; and b) merger update with BhaFin (likely conclusion in Q2FY19). Given strong track record, superior RoA and well-capitalised position, execution risks are minimal. Maintain 'BUY' with TP of INR2,080 (3.9x FY20E P/ABV).

### Broad based growth momentum suggesting secular growth trends

Despite its Phase IV target of lowering corporate loan proportion to 50%, structural opportunities are driving it further up — corporate moved up 30% YoY (NCLT refinancing). Impressively, growth in vehicle portfolio is also sustaining, with commercial vehicle growth more of a trend now. On diversified growth levers, we expect IIB to swiftly capitalise on the recovery momentum and continue to gain market share. Meanwhile, NIMs were down 5bps QoQ to 3.92% on higher deposit cost, bank has raised MCLR (40bps in Q4FY18) which will help cushion NIMs. Core fee income continued below trend at 20% growth which restricted overall revenue momentum — a key monitorable.

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

Slippages were curtailed at ~INR4.8bn (1.3%), which in-turn restricted GNPLs to INR17.4bn (up 2% QoQ). Overall stress (GNPLs + restructured book) was stable at 1.2%. Credit cost was at 14bps (versus 19bps for Q4FY18 and 62bps for FY18). Falling proportion of BBB-and-below rated corporates (<34% vs. >48% as at FY16), leading to lower RWA/assets (at ~79%) is encouraging.

### Outlook and valuation: 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) liability franchise and balance sheet has been strengthening; and 3) outlook is optimistic. We expect superior growth, stable margins and controlled credit costs to help the bank sustain >25% earnings CAGR over FY18-20. At CMP, the stock trades at 3.6x FY20E P/ABV. We maintain 'BUY/SP'.

#### Financials

	(INR mn)							
Year to March	Q1FY19	Q1FY18	Growth %	Q4FY18	Growth %	FY18	FY19E	FY19E
Net revenue	34,240	29,413	16.4	32,161	6.5	1,22,476	1,49,157	1,84,605
Net profit	10,357	8,365	23.8	9,531	8.7	36,060	44,720	57,036
Dil. EPS (INR)	17.1	13.9	23.2	15.7	8.6	60.1	74.5	95.0
Adj. BV (INR)						388.5	450.2	533.2
Price/ Adj book (x)						5.0	4.3	3.6
Price/ Earnings (x)						32.2	26.0	20.4

#### 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 1,935
Target Price	: INR 2,080
52-week range (INR)	: 1,995 / 1,526
Share in issue (mn)	: 600.4
M cap (INR bn/USD mn)	: 1,162 / 16,880
Avg. Daily Vol.BSE/NSE('000)	: 1,230.2

#### SHARE HOLDING PATTERN (%)

	Q4FY18	Q3FY18	Q2FY18
Promoters *	15.0	15.0	15.0
MF's, FI's & BK's	11.7	11.7	12.6
FII's	44.5	44.5	43.0
Others	28.8	28.8	29.4
* Promoters pledged shares (% of share in issue)	NIL		

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	2.5	0.0	0.2
3 months	13.3	3.8	6.6
12 months	30.9	12.4	12.1

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**Table 1: Key takeaways from Q1FY19 earnings**

(INR mn)	Q1FY19	Q1FY18	Growth (%)	Q4FY18	Growth (%)	Comments
Net interest income	21,224	17,741	19.6	20,076	5.7	
Other income	13,016	11,673	11.5	12,085	7.7	Other income lower following lower treasury gains. Even core fee income growth was below trend - a key monitorable
Operating expenses	15,129	13,528	11.8	14,467	4.6	In line with Phase-4 target, benefits of operating efficiency have started to play out
Staff expense	4,620	4,222	9.4	4,535	1.9	
Other opex	10,509	9,306	12.9	9,932	5.8	
Pre prov Op profit (PPP)	19,111	15,885	20.3	17,694	8.0	
Provisions	3,500	3,100	12.9	3,356	4.3	Credit cost curtailed at 14bps (19bps for Q4FY18 and 62bps for FY18)
Profit before tax	15,611	12,786	22.1	14,338	8.9	
Provision for tax	5,254	4,420	18.9	4,808	9.3	
Profit after tax	10,357	8,365	23.8	9,531	8.7	
EPS (INR)	17.1	13.9	23.2	15.7	8.6	
<b>Balance sheet (INR bn)</b>						
Advances	1,507	1,164	29.4	1,450	3.9	Move towards better rated portfolio sustained. Secular growth driven by corporate segments (up 30% YoY, NCLT refinance) and retail segment (up 28% YoY). While bank aimed to achieve 50%/50% mix for CFD/CCB, but structural opportunities in corporate may lead to higher porpotion
Deposits	1,589	1,337	18.8	1,516	4.8	
CD Ratio (%)	94.8	87.1		95.6		
<b>Asset quality</b>						
Gross NPA	17,406	12,717	36.9	17,049	2.1	Slippages were curtailed at 1.3% which fed into steady headdline GNPLs
Net NPA	7,624	5,083	50.0	7,457	2.2	
Gross NPA (%)	1.2	1.1		1.2		
Net NPA (%)	0.5	0.4		0.5		
Provision coverage	56.2	60.0		56.3		
Restructured book	0.1	0.2		0.1		
Overall stress assets	1.2	1.3		1.2		Overall stress asset broadly steady

Source: Company, Edelweiss research

**Table 2: Loan growth sustain momentum, suggesting market share gains; scale up in CASA ratio sustains**

(INR mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Advances	8,84,193	9,36,780	9,89,491	10,27,700	11,30,805	11,64,070	12,31,808	12,85,400	14,49,537	15,06,750
YoY (%)	28.5	29.7	26.4	25.1	27.9	24.3	24.5	25.1	28.2	29.4
QoQ (%)	7.6	5.9	5.6	3.9	10.0	2.9	5.8	4.4	12.8	3.9
Deposits	9,30,003	10,17,680	11,23,133	11,92,180	12,65,722	13,36,730	14,14,406	14,60,860	15,16,392	15,88,620
YoY (%)	25.4	31.0	38.9	37.9	36.1	31.4	25.9	22.5	19.8	18.8
QoQ (%)	7.6	9.4	10.4	6.1	6.2	5.6	5.8	3.3	3.8	4.8
CD ratio (%)	95.1	92.1	88.1	86.2	89.3	87.1	87.1	88.0	95.6	94.8
CASA (%)	35.2	34.4	36.5	37.1	36.9	37.8	42.0	43.0	44.0	43.4

**Table 3: NIMs dip 5 bps QoQ on higher deposit costs**

(%)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Yield on Advances	12.0	12.1	11.9	11.7	11.4	11.5	11.3	11.0	11.1	11.2
Cost of deposits	7.1	6.9	6.6	6.4	6.1	6.2	5.9	5.9	6.0	6.2
NIMs	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9

**Table 4: Core fee income was soft, a key monitorable**

(INR mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Trade Fees (LC, BG, Remittances)	1,410	1,310	7.6	1,530	(7.8)
Processing Fees & other charges	2,300	1,960	17.3	2,280	0.9
FX – Client	2,280	1,980	15.2	1,970	15.7
TPP (Insurance ,MF ,etc )	2,780	2,100	32.4	2,730	1.8
Investment Banking Income	2,080	1,750	18.9	1,970	5.6
Gen. Bkg. / Other Income	800	640	25.0	650	23.1

**Table 5: Slippages curtailed, restricting headline GNPLs to 1.15%**

(%)	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Opening gross NPA	0.9	0.9	0.9	0.9	0.9	1.1	1.1	1.2	1.2
CCB	0.7	0.7	0.7	0.7	0.8	0.9	1.1	1.0	1.2
CFD	1.0	1.1	1.1	1.1	1.1	1.2	1.0	1.0	1.1
Additions	0.3	0.3	0.3	0.6	0.5	0.4	0.3	0.6	0.3
CCB	0.2	0.1	0.2	0.7	0.5	0.4	0.2	0.6	0.2
CFD	0.4	0.5	0.4	0.4	0.5	0.4	0.5	0.6	0.4
Deductions	0.2	0.2	0.2	0.5	0.3	0.3	0.2	0.5	0.3
CCB	0.1	0.1	0.1	0.6	0.3	0.2	0.1	0.5	0.2
CFD	0.3	0.4	0.3	0.4	0.4	0.6	0.4	0.4	0.5
Closing gross NPA	0.9	0.9	0.9	0.9	1.1	1.1	1.2	1.2	1.2
CCB	0.8	0.7	0.8	0.8	1.0	1.1	1.2	1.2	1.2
CFD	1.1	1.2	1.2	1.1	1.3	1.1	1.1	1.1	1.0

**Table 6: GNPA's broadly steady across segments**

(%)	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
CV	1.1	1.1	1.0	1.0	1.1	1.0	0.9	1.0	0.9
Utility	1.3	1.2	1.1	1.1	1.4	1.4	1.3	1.3	1.4
Const equip	1.4	1.4	1.2	1.2	1.1	1.0	1.1	1.1	0.9
Small CV	1.1	1.0	0.8	0.9	1.3	1.1	1.2	1.3	1.1
2W	3.2	3.6	3.6	3.5	3.6	3.6	3.8	3.8	3.7
Cars	0.5	0.5	0.8	0.7	0.7	0.7	0.6	0.7	0.7

Source: Company

**Table 7: Loan book composition: Structural opportunities driving corporate proportion higher**

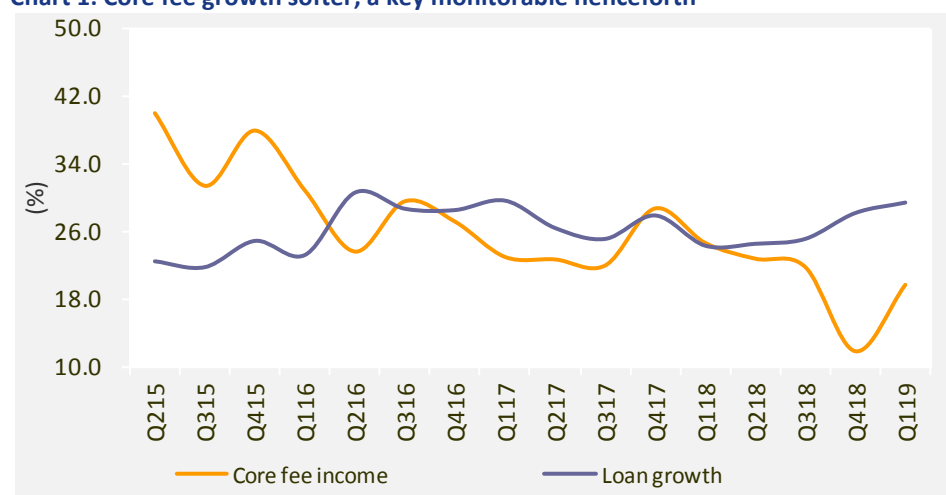
(%)	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Commercial vehicles	15.8	16.1	15.9	16.1	15.8	15.9	15.4	15.2	15.1	15.9	15.6	15.6
Utility vehicles	2.6	2.5	2.3	2.2	2.2	2.2	2.1	2.1	2.0	2.1	2.0	2.0
Cars	4.5	4.6	4.4	4.4	4.4	4.4	4.1	4.1	4.1	4.1	3.7	3.7
Small CV	6.1	6.1	5.8	5.6	5.5	5.6	5.0	4.8	4.6	4.6	4.2	4.3
Equipments	3.7	3.7	3.7	3.7	3.6	3.8	3.6	3.8	3.7	3.9	3.8	4.0
Others (home and personal)	8.1	8.7	9.2	9.3	9.5	9.9	10.0	10.5	10.5	10.7	10.2	10.4
Loan to large corporates	26.5	26.8	28.6	29.2	27.9	27.5	27.8	28.4	29.3	28.5	30.6	29.8
Loan to mid corporates	20.6	19.5	18.8	18.3	19.5	19.2	19.6	19.5	19.1	18.7	17.7	17.6
Loan to small businesses	12.0	12.0	11.3	11.4	11.6	11.6	12.3	11.7	11.4	11.5	12.3	12.6

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

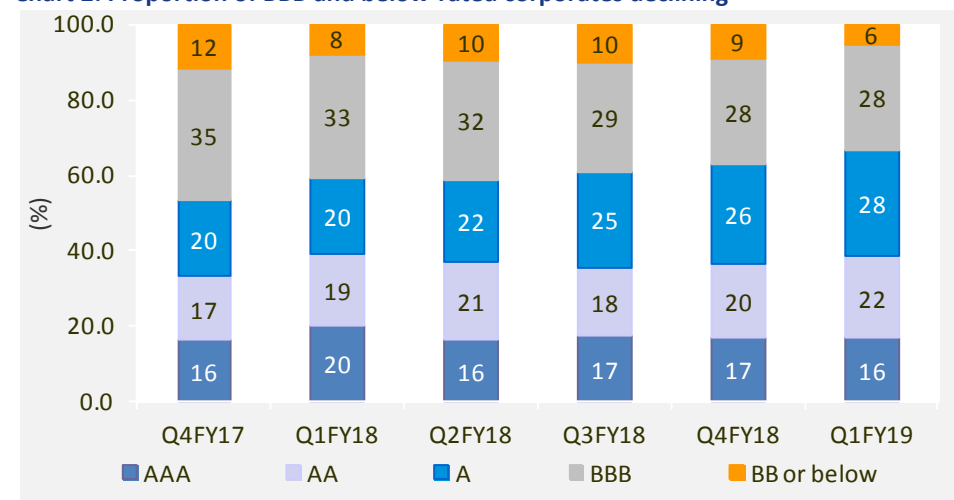
(%)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
CA	16.6	15.7	18.2	15.9	15.5	14.2	13.9	13.9	13.7	13.4
SA	18.5	18.8	18.3	21.1	21.4	23.6	28.4	28.9	30.3	30.0

Source: Company

**Chart 1: Core fee growth softer, a key monitorable henceforth**



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



Source: Company

## Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Interest income	50,682	41,355	22.6	46,501	9.0	172,808	221,132	278,361
Interest exp	29,457	23,615	24.7	26,425	11.5	97,833	128,584	163,246
Net int. inc. (INR mn)	21,224	17,741	19.6	20,076	5.7	74,975	92,548	115,114
Other income	13,016	11,673	11.5	12,085	7.7	47,501	56,608	69,491
Net revenues	34,240	29,413	16.4	32,161	6.5	122,476	149,157	184,605
Operating expenses	15,129	13,528	11.8	14,467	4.6	55,915	65,929	79,665
Staff costs	4,620	4,222	9.4	4,535	1.9	17,807	21,701	26,020
Other opex	10,509	9,306	12.9	9,932	5.8	38,108	44,228	53,645
Pre prov op profit(ppop)	19,111	15,885	20.3	17,694	8.0	66,561	83,228	104,940
Provisions	3,500	3,100	12.9	3,356	4.3	11,750	15,470	18,522
Profit before tax	15,611	12,786	22.1	14,338	8.9	54,811	67,758	86,418
Provision for taxes	5,254	4,420	18.9	4,808	9.3	18,751	23,038	29,382
PAT	10,357	8,365	23.8	9,531	8.7	36,060	44,720	57,036
Diluted EPS (INR)	17.1	13.9	23.2	15.7	8.6	60.1	74.5	95.0

## Ratios

NII/GII (%)	41.9	42.9		43.2		43.4	41.9	41.4
Cost/income (%)	44.2	46.0		45.0		45.7	44.2	43.2
Provisions / PPOP	18.3	19.5		19.0		17.7	18.6	17.7
Tax rate (%)	33.7	34.6		33.5		34.2	34.0	34.0

## Bal. sheet data (INRbn)

Advances	1,507	1,164	29.4	1,450	3.9	1,450	1,841	2,301
Deposits	1,589	1,337	18.8	1,516	4.8	1,516	1,921	2,407
CD Ratio	95	87		96		96	96	96
Prov. coverage (%)	56.2	60.0		56.3		56.3	61.0	63.6

## Asset quality

Gross NPA	17,406	12,717	36.9	17,049	2.1	17,049	24,328	29,879
Gross NPA (%)	1.1	1.1		1.2		1.2	1.3	1.3
Net NPA	7,624	5,083	50.0	7,457	2.2	7,457	9,495	10,864
Net NPA (%)	0.5	0.4		0.5		0.5	0.5	0.5
Adj book value / share						388.5	450.2	533.2
Price/ Adj. book (x)						5.0	4.3	3.6
Price/ Earnings						32.2	26.0	20.4

## Q1FY19 earnings call takeaways

### With respect to growth momentum

- Secular loan growth momentum was sustained this quarter (up > 29% YoY despite INR80bn portfolio sold this quarter), management believes that sequential growth is indicative for growth momentum to come forward and expect strong momentum will continue.
- Have done 4 NCLT refinancing cases this quarter, based on the comfort with sponsor and the possibility of the turn-around of underlying asset. The banks maintains the philosophy of retaining 20% of these exposures and selling balance 80%
- CASA growth momentum also was on track, with SA growth of > 50% YoY. Market itself is seeing softer growth in current accounts, bank sees this piece to be very competitive (especially given evaluation of payment landscape) and expect soft momentum to continue in CA.

### With respect to asset quality

- Asset quality showed all round improvement – credit cost at 14bps, PCR maintained at 56% , restructured book at 5bps, SRs book at 33bps. Slippages dropped to 1.3% versus 2.7% in previous quarter.
- During this quarter the bank gave additional disclosures on behavioural scoring of vehicle financing portfolio. With weighted average risk score – of 1.77 (this is lead indicator for credit cost by about 6 months or so), the management expect further improvement in credit cost in this portfolio.
- The growth in the unsecured segment (in Annual report) is due to higher PSU exposure (AAA rated) where the bank doesn't have much collateral.

### With respect to operational metrics

- MTM losses of INR860mn , which is fully provided for and have not used RBI dispensation.
- Overall capital consumption was 33bps of this 8bps is on dividend and 25bps is pertaining to growth. There was higher growth in RWA than loan book ( on sequential basis) given a) lower cash backed exposure b) higher real estate exposure and c) higher growth in PL and CC.
- Seeing momentum in Insurance and housing loan disbursement for HDFC and investment products, these cumulatively are leading to better third party fee growth.
- NIMs were down 5bps QoQ, this was due to lagged impact of yields re-pricing (average MCLR re-pricing duration for corporate happens in 270 days, 60% of the corporate book will be linked to MCLR). Management expects NIMs to be in 3.9-4% range.
- Branch opening is going a pace – 10 branches opened this quarter, but lot of branches are under progress and will add 200 branches this quarter

### Others

- Government deposits forms around 15% of the overall balance sheet size.
- Customer base is now at 12mn (added 1 mn customer this year)
- Expect 48% of cost/income ratio on sustainable basis.
- Merger with Bharat financial is in the last leg of approval - expect NCLT process to be done within a week and for the balance it should take 3 months to merge.
- The acquisition of ISSL ( taken from ILFS) should be largely done in this quarter.

## Q4FY18 earnings call takeaways

### Overall management commentary

- In the current scenario, **operational risk** is an important factor that needs to be looked upon.
- The February 12 circular norms are a **good stepping stone towards IndAS implementation** and preparing the banks well for it.
- The bank on track to achieve the targets mentioned in PC4. Despite lower trading gains, the PAT was higher 27% YoY. If gains would have been higher, floating provisions would have been created. However, w.r.t. having a **50% mix of corporate book is something where the bank is lagging due to the strong growth momentum**.
- The bank has acquired 0.6mn accounts in Q4FY18 and total stands at 11.2mn currently. **Aims to have a 20mn customer base by 2020.**

### Growth

- **Strong corporate loan book growth was on the back of NCLT refinancing and should flow through in the upcoming quarters.**
- W.r.t to corporate, there is no cap on good quality lending and decision will be driven by the RoA's apart from the credit evaluation. Not only does corporate pay higher interest, but also includes a huge chunk of fee income. The structural easing towards private banks will help capture market share from PSB's. **For a 10% shift in market share, around USD15bn-USD16bn capital would be required by private banks.**
- **Non vehicle retail grew at 33% YoY but are cautious on LAP due to the aggressive pricing and hence have slowed down lending in this domain.**
- Gems and Jewellery segment - The bank works only with diamond traders (good quality and a small group of clients) and not jewelers wherein the major issue rests.
- **Aspirational loan growth to be greater than 25% while credit cost should be in mid fifties (in bps)**
- Power exposure in the book is to a AAA rated PSU

### Asset Quality

- In vehicle financing the slippages are mostly offset by the recoveries w.r.t to slippages of previous quarters. That said, the slippages were higher this year mostly because of the holiday on last 4 days of the financial year. **On the corporate side, slippages were primarily because of 2 accounts which include a gems and jewellery account and a road account which is standard for the industry as of now but will have to be categorized as divergence. IIB has an exposure of INR 1.04bn to this road account.**
- Credit cost flat at 62bps inspite of hit due to divergence. This is mainly a legacy account – gems and jewellery; although standard internally categorized as fraud and thus considered NPA.
- **Divergence is INR 13.5bn, includes a large cement account classified as NPA earlier in Mar 2017 and recovered in Jun 2017. This will have absolutely no impact on the profit and loss account. Net impact is INR 1.85bn which is only 2-3bps impact on credit cost**
- Recoveries possible in steel accounts out of the NCLT exposure

### Operational metrics

- **Corporate yield is inching up from last 2 quarters and this quarter it is up by 11bps. That said, MCLR effect is yet to kick in completely and should help in building up yields.**
- **Cost of deposits to be trending downward from here on.** The bank is flexible in terms of managing the interest rate slab by adjusting the range of the deposits rather than the interest rate per say.
- Processing fees are subdued as the renewals of corporate accounts are spread out over a months.
- IT spends are almost 5% of the overall opex spends.
- **Normalisation in RoA and RoE is expected from Q1FY19 onwards**

### Others

- For the merger with Bharat financial, RBI NOC is in place while SEBI and NCLT approval are pending and should be attained shortly. The integration will start from July 2018 but the deal will be effective from January 2019.
- W.r.t to the acquisition of the securities arm of IL&FS, SEBI approval is required. This will give the company good exposure to the domain as the company has 20% market share in clearing business.
- **50% of the book is MCLR, 40% is fixed while 10% is variable linked to some benchmark**
- 48% of new saving accounts and 60% of personal loans are acquired digitally
- Market risk was up on a yearly basis because the bank took up Non-SLR positions because of tight liquidity towards the end of March. This is temporary and should come down in the next quarter.



## Company Description

IndusInd Bank commenced its operations in 1994 and had transformational management change in 2008. Since management change, the bank has successfully completed three phases of planning cycle and is currently undergoing fourth phase of planning cycle. The market has consistently rewarded IIB for its delivery on improvement in profitability metrics – ROA, ROE.

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 1410 branches, and 2,285 ATMs spread across geographic locations of the country.

## Investment Theme

IIB has been delivering steady earnings performance even through challenging times. Even more commendable is that: 1) IIB is delivering a mix of sustainable earnings growth with granularity; 2) liability franchise and balance sheet has been strengthening; and 3) outlook is optimistic. We expect superior growth, stable margins and controlled credit costs to help the bank sustain >25% earnings CAGR over FY18-20. Given improving retail liabilities, high RoAs and well-capitalized position (Tier 1 at ~14.3%) 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 is seeing below trend growth in fee income profile, any sustenance of the same may have impact on its profitability.

The bank is scheduled to merge with Bharat Financials, any blip in there could have implications for the stock.

## Financial Statements

## Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
<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	10.6	10.8	10.9
Yield on investments	7.3	7.1	7.0	6.9
Yield on asset	9.7	9.2	9.4	9.5
Cost of funds	5.9	5.5	5.5	5.4
Net interest margins	4.1	4.0	3.9	3.9
Cost of deposits	6.3	5.8	5.6	5.6
Cost of borrowings	6.7	6.6	6.8	6.9
Spread	3.7	3.7	3.9	4.1
<b>Balance sheet assumption (%)</b>				
Credit growth	28.1	29.3	26.8	24.9
Deposit growth	36.1	19.8	26.7	25.3
SLR ratio	21.1	21.3	20.5	20.0
Low-cost deposits	36.9	44.0	45.3	46.5
Net NPA ratio	0.4	0.5	0.5	0.5
Net NPA / Equity	2.1	3.1	3.4	3.3
Capital adequacy	15.3	15.0	14.3	13.6
Incremental slippage	1.6	2.9	1.7	1.5
Provision coverage	58.4	56.3	61.0	63.6

## Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	144,057	172,808	221,132	278,361
Interest expended	83,431	97,833	128,584	163,246
Net interest income	60,626	74,975	92,548	115,114
Non interest income	41,715	47,501	56,608	69,491
- Fee & forex income	38,149	43,329	54,319	67,672
- Misc. income	766	454	290	319
- Investment profits	2,801	3,718	2,000	1,500
Net revenue	102,341	122,476	149,157	184,605
Operating expense	47,831	55,915	65,929	79,665
- Employee exp	15,210	17,807	21,701	26,020
- Other opex	32,621	38,108	44,228	53,645
Preprovision profit	54,510	66,561	83,228	104,940
Provisions	10,909	11,750	15,470	18,522
Loan loss provisions	10,501	10,541	15,470	18,522
Investment depreciation	314	1,209	-	-
Other provisions	94	-	-	-
Profit Before Tax	43,601	54,811	67,758	86,418
Less: Provision for Tax	14,922	18,751	23,038	29,382
Profit After Tax	28,679	36,060	44,720	57,036
Reported Profit	28,679	36,060	44,720	57,036
Adj. Diluted EPS (INR)	47.9	60.1	74.5	95.0
Dividend per share (DPS)	6.0	7.5	9.0	9.0
Dividend Payout Ratio(%)	14.5	14.5	14.0	11.0

## Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
NII growth	34.2	23.7	23.4	24.4
Fees growth	24.3	13.6	25.4	24.6
Opex growth	30.3	16.9	17.9	20.8
PPOP growth	29.6	21.5	29.3	27.3
PPP growth	31.6	22.1	25.0	26.1
Provisions growth	62.4	7.7	31.7	19.7
Adjusted Profit	25.4	25.7	24.0	27.5

## Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	11.4	10.6	10.8	10.9
Yield on investments	7.3	7.1	7.0	6.9
Yield on assets	9.7	9.2	9.4	9.5
Cost of funds	5.9	5.5	5.5	5.4
Net interest margins	4.1	4.0	3.9	3.9
Cost of deposits	6.3	5.8	5.6	5.6
Cost of borrowings	6.7	6.6	6.8	6.9
Spread	3.7	3.7	3.9	4.1
Cost-income	46.7	45.7	44.2	43.2
Tax rate	34.2	34.2	34.0	34.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	5,982	6,002	6,002	6,002	
Reserves & Surplus	200,480	232,414	270,856	321,614	
Net worth	206,461	238,416	276,858	327,616	
Sub bonds/pref cap	-	-	500	1,000	
Deposits	1,265,722	1,516,392	1,920,579	2,406,726	
Total Borrowings	224,537	382,891	564,598	676,742	
Other liabilities	91,877	81,258	217,760	261,178	
<b>Total liabilities</b>	<b>1,788,597</b>	<b>2,218,957</b>	<b>2,980,295</b>	<b>3,673,261</b>	
Loans	1,130,805	1,449,537	1,840,911	2,301,139	
Cash and Equivalents	186,283	132,159	156,263	191,032	
Gilts	314,523	403,660	509,461	616,694	
Others	52,498	97,107	115,945	138,550	
Fixed assets	13,352	13,388	12,836	12,204	
Other Assets	91,136	123,107	344,879	413,643	
<b>Total assets</b>	<b>1,788,597</b>	<b>2,218,957</b>	<b>2,980,295</b>	<b>3,673,261</b>	
BVPS (INR)	345.2	397.2	461.3	545.8	
Credit growth	28.1	29.3	26.8	24.9	
Deposit growth	36.1	19.8	26.7	25.3	
EA growth	29.8	23.7	25.9	23.8	
SLR ratio	21.1	21.3	20.5	20.0	
C-D ratio	91.3	98.5	98.6	98.3	
Low-cost deposits	36.9	44.0	45.3	46.5	
Provision coverage	58.4	56.3	61.0	63.6	
Gross NPA ratio	0.9	1.2	1.3	1.3	
Net NPA ratio	0.4	0.5	0.5	0.5	
Incremental slippage	1.6	2.9	1.7	1.5	
Net NPA / Equity	2.1	3.1	3.4	3.3	
Capital adequacy	15.3	15.0	14.3	13.6	
- Tier 1	14.7	14.6	13.9	13.2	

RoE decomposition (%)		FY17	FY18	FY19E	FY20E
Year to March					
Net int. income/assets	4.1	4.0	3.9	3.9	
Fees/Assets	2.6	2.3	2.3	2.3	
Invst. profits/Assets	0.2	0.2	0.1	0.1	
Net revenues/assets	6.9	6.5	6.3	6.3	
Operating expense/assets	(3.2)	(3.0)	(2.8)	(2.7)	
Provisions/assets	(0.7)	(0.6)	(0.7)	(0.6)	
Taxes/assets	(1.0)	(1.0)	(1.0)	(1.0)	
Total costs/assets	(4.9)	(4.6)	(4.4)	(4.3)	
ROA	1.9	1.9	1.9	1.9	
Equity/assets	12.9	11.8	11.0	10.3	
ROAE (%)	15.0	16.2	17.4	18.9	

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)	47.9	60.1	74.5	95.0	
Y-o-Y growth (%)	24.8	25.3	24.0	27.5	
BV per share (INR)	345.2	397.2	461.3	545.8	
Adj. BV per share (INR)	340.0	388.5	450.2	533.2	
Diluted P/E (x)	40.4	32.2	26.0	20.4	
P/B (x)	5.6	4.9	4.2	3.5	
Price/ Adj. BV (x)	5.7	5.0	4.3	3.6	
Dividend Yield (%)	0.3	0.4	0.5	0.5	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
IndusInd Bank	16,880	26.0	20.4	4.3	3.6	17.4	18.9
Axis Bank	19,868	17.6	12.9	2.3	2.0	11.7	14.3
DCB Bank	809	17.2	13.9	2.0	1.8	11.9	13.0
Federal Bank	2,393	11.7	9.1	1.4	1.2	11.0	12.9
HDFC Bank	81,205	26.5	21.2	4.0	3.5	17.3	17.4
ICICI Bank	25,546	12.9	9.3	2.1	1.8	12.9	16.3
Karnataka Bank	648	6.0	4.8	0.8	0.7	11.3	13.1
Kotak Mahindra Bank	37,998	35.9	29.4	5.0	4.3	14.8	15.7
Yes Bank	12,441	15.6	11.8	3.0	2.5	19.6	21.8
Median	-	17.2	12.9	2.3	2.0	12.9	15.7
AVERAGE	-	18.8	14.7	2.8	2.4	14.2	15.9

Source: Edelweiss research

## Additional Data

### Directors Data

R. Seshasayee	Chairman	Romesh Sobti	Managing Director
T. Anantha Narayanan	Director	Kanchan Chitale	Director
Yashodhan M. Kale	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
New Leaina Investments	10.68	Bridge India Fund	3.50
Blackrock	3.40	UTI Asset Management	1.55
Dia Afrin	1.51	JPMorgan Chase & Co	1.50
ICICI Prudential Life Insurance	1.50	SBI Fund Management	1.47
Schroders Plc	1.47	Carmignac Gestion SA	1.14

*\*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
26 Jun 2018	Romesh Sobti	Sell	20000.00
25 Jun 2018	Romesh Sobti	Sell	20000.00
07 May 2018	Sumant Kathpalia	Sell	20000.00
30 Apr 2018	Sumant Kathpalia	Sell	243000.00
30 Apr 2018	Sumant Kathpalia	Buy	243000.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Capital	BUY	SO	M	Allahabad Bank	HOLD	SU	M
Axis Bank	HOLD	SU	M	Bajaj Finserv	BUY	SP	L
Bank of Baroda	BUY	SP	M	Bharat Financial Inclusion	BUY	SP	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	BUY	SP	L	Indiabulls Housing Finance	BUY	SO	M
IndusInd Bank	BUY	SP	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	BUY	SO	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	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	HOLD	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	REDUCE	SU	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	M	South Indian Bank	BUY	SO	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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## 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
18-Jun-18	<b>IndiaBulls Housing Finance</b>	Investors' day takeaways: On chartered course; <i>Visit Note</i>	1200	Buy
18-Jun-18	<b>Federal Bank</b>	Growth on track; asset quality holds key; <i>Visit Note</i>	84	Buy
13-Jun-18	<b>Aditya Birla Capital</b>	Exclusively inclusive; <i>Initiating Coverage</i>	139	Buy

### Distribution of Ratings / Market Cap

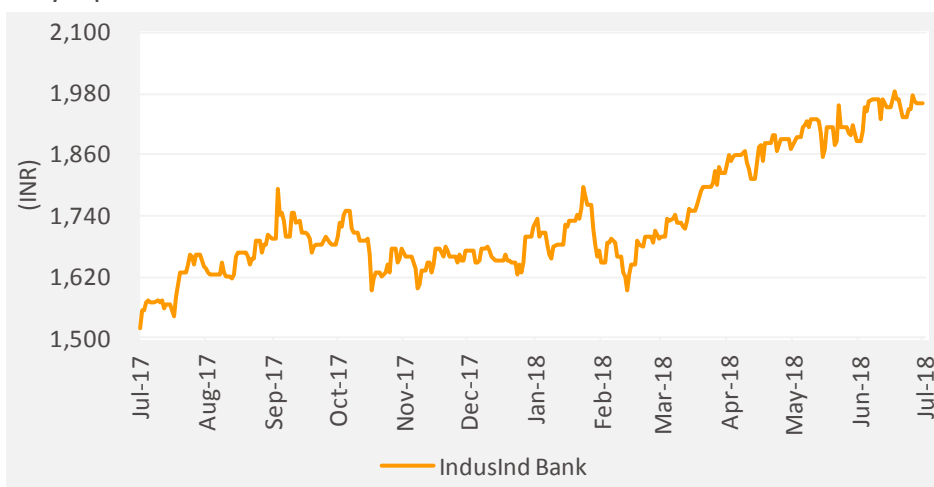
#### Edelweiss Research Coverage Universe

	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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