kotak Institutional Equities

Banks / Diversified Financials

India

ATTRACTIVE / NEUTRAL

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UPDATE

BSE-30: 38,877

Banks recovery on firm track; NBFCs a tad better. We see banks showing further improvement in key metrics. Impairment ratios to decline led by lower slippages, recovery as well as high provisions for bad loans. Recapitalisation would result in most public banks reporting a sharp decline in net NPL ratios. NBFCs had a marginally better quarter than 3QFY19 as liquidity eased for retail players. Slowdown in auto sales and increase in incremental cost of funding will weigh on 4QFY19E performance.

Banks: stable performance overall

We expect banks under coverage to show stable operating performance though the massive recapitalization in public banks could result in banks lowering net NPL ratios by making higher provisions. Loan growth has been stable at ~14-15% for the quarter with better negligible pricing pressure resulting in NII growth of 21%. Treasury contribution is likely to be sharply lower qoq. Asset quality to show further improvement. Among banks, we continue to maintain our positive outlook on corporate banks (ICICI Bank and SBI). IndusInd Bank would have a challenging quarter (IL&FS exposure) while focus on HDFC Bank would be on revenue composition. Third party fees would be lower considering revision on upfront/trail fees from mutual funds. Yes Bank would see a sharp slowdown in business growth and the commentary from the new management would be a key monitorable.

Asset quality to show further improvement; slippages to ease but credit costs would be high

Most of our discussions with banks in recent times suggest that the unrecognized stress in corporate loans is negligible especially post IL&FS. Risks emanating from real estate are not too high. Resolution through the IBC framework has slowed as several high profile cases could not reach a conclusion as anticipated earlier. However, progress continues outside through settlements/upgradation/write-offs etc. The government's recent capital infusion program would result in these banks choosing to make aggressive provisions to bring down net NPLs of a few banks to ~6% which gives them headroom to come out of PCA. We maintain our key theme on playing the recovery for corporate banks with a positive outlook on corporate banks like SBI and ICICI Bank. IndusInd Bank would have another quarter of high provisions. Stress in retail loans remains unchanged and low.

NBFCs: a tad better

4QFY19E was a tad better than 3QFY19 with improved liquidity for most NBFCs under coverage. While loan growth picked up in select segments (retail housing, LAP etc), auto finance was weak reflecting the slowdown in volumes by large OEMs. Sharp rise in incremental funding costs post September 2018 will likely reflect in lower NIM for the quarter. Seasonal trends suggest that asset quality performance improves in 4Q though strong recoveries over the last few quarters sets a high base. Wholesale lending business continued to remain muted as many NBFCs continue to struggle on the liquidity front. Post the sharp rally, we are revising our rating on LICHF to ADD from BUY (fair value of Rs590, unchanged) and Muthoot Finance to REDUCE from ADD even as we raise fair value to Rs600.

QUICK NUMBERS

- NII to grow 20% yoy; PPoP to grow 12% yoy
- Loan growth to remain robust at ~15% yoy for SCBs in 4QFY19
- ~10-30 bps qoq decline in NIM (calculated) for most NBFCs under coverage

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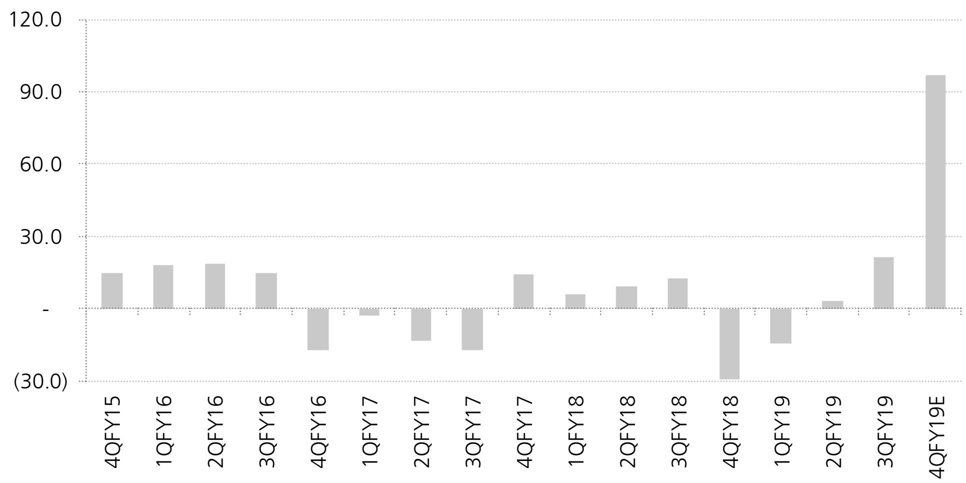
Exhibit 1: Change in ratings, fair value and earnings estimates for stocks under coverage
March fiscal year-ends, 2019E-2021E

	Rating		Fair value (Rs)		CMP	Upside	PAT - New estimates (Rs mn)			PAT - Old estimates (Rs mn)			Change in estimates (%)		
	New	Old	New	Old	(Rs)	(%)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Banks															
Public banks															
Bank of Baroda	ADD	ADD	145	140	132	10	28,808	89,808	102,378	27,619	86,774	100,372	4	3	2
Canara Bank	ADD	ADD	315	280	285	10	6,912	38,567	49,947	6,912	38,567	49,947	-	-	-
PNB	ADD	ADD	105	95	94	11	(79,261)	50,084	58,679	(52,976)	51,517	60,109	50	(3)	(2)
SBI	BUY	BUY	410	370	321	28	67,835	335,662	472,410	65,810	336,657	454,900	3	(0)	4
Union Bank	ADD	ADD	105	90	95	11	(10,159)	12,750	33,232	350	13,126	34,088	(3,005)	(3)	(3)
Old private banks															
City Union Bank	ADD	ADD	215	200	199	8	6,994	7,683	8,920	6,973	7,739	8,988	0	(1)	(1)
DCB	BUY	BUY	220	210	199	10	3,158	3,922	5,225	3,158	3,922	5,225	-	-	-
Federal Bank	BUY	BUY	115	110	95	21	12,031	16,495	20,179	11,940	16,333	19,972	1	1	1
Karur Vysya Bank	ADD	ADD	85	85	74	15	1,523	3,001	6,025	1,690	3,191	6,241	(10)	(6)	(3)
J&K Bank	BUY	BUY	90	90	58	55	3,944	5,325	9,776	3,944	5,325	9,776	-	-	-
New private banks															
Axis Bank	REDUCE	REDUCE	720	710	762	(5)	2,208	3,399	4,693	2,070	3,304	4,576	7	3	3
HDFC Bank	ADD	ADD	2,350	2,200	2,293	2	1,881	2,780	3,442	1,856	2,999	3,692	1	(7)	(7)
ICICI Bank	BUY	BUY	450	430	392	15	(15,607)	7,584	12,609	(15,607)	7,584	12,609	-	-	-
Yes Bank	SELL	SELL	210	200	274	(23)	40,363	39,560	51,258	41,621	41,653	53,981	(3)	(5)	(5)
IndusInd Bank	ADD	BUY	1,800	1,700	1,774	1	35,405	56,133	74,548	39,719	56,539	70,827	(11)	(1)	5
RBL	SELL	SELL	550	515	663	(17)	8,739	12,004	14,678	8,562	11,566	14,113	2	4	4
Small finance banks															
Equitas	BUY	BUY	180	180	136	33	2,208	3,399	4,693	2,070	3,304	4,576	7	3	3
Ujjivan	ADD	BUY	375	350	330	14	1,881	2,780	3,442	1,856	2,999	3,692	1	(7)	(7)
NBFCs															
HDFC	ADD	ADD	2,125	2,125	2,013	6	95,101	103,137	121,608	90,684	102,568	121,364	5	1	0
LIC Housing Finance	ADD	BUY	590	590	543	9	23,100	27,039	31,728	23,100	27,039	31,728	-	-	-
PNB Housing Finance	REDUCE	REDUCE	950	950	918	3	10,410	11,862	14,308	10,410	11,862	14,308	-	-	-
Cholamandalam	ADD	ADD	1,525	1,525	1,463	4	11,944	14,121	17,435	11,944	14,121	17,435	-	-	-
Magma Fincorp	BUY	BUY	145	145	121	20	3,039	4,108	4,841	3,039	4,108	4,841	-	-	-
Bajaj Finance	REDUCE	REDUCE	2,200	2,200	3,046	(28)	38,452	51,652	67,785	38,452	51,652	67,785	-	-	-
Mahindra Finance	ADD	ADD	475	475	417	14	13,474	16,551	20,426	13,474	16,551	20,426	-	-	-
Shriram Transport	BUY	BUY	1,475	1,475	1,198	23	24,502	28,787	33,245	24,639	29,074	33,461	(1)	(1)	(1)
L&T Finance Holdings	ADD	REDUCE	145	145	152	(5)	23,284	25,887	29,918	23,284	25,887	29,918	-	-	-
Muthoot Finance	REDUCE	ADD	600	550	610	(2)	19,147	18,002	20,020	19,147	18,002	20,020	-	-	-
Shriram City Union Finance	ADD	ADD	1,950	1,950	1,795	9	9,609	10,399	12,389	9,609	10,399	12,389	-	-	-
IIFL Holdings	REDUCE	REDUCE	410	410	450	(9)	10,945	12,007	14,338	10,945	12,007	14,338	-	-	-
General Insurance															
ICICI Lombard	SELL	SELL	720	720	1,009	(29)	10,940	14,021	16,631	11,610	14,346	16,530	(6)	(2)	1

Source: Company, Kotak Institutional Equities estimates

We have rolled over our estimates for banks to FY2021E resulting in the increase in fair value of stocks under our coverage. The rise in fair value is relatively higher for PSU Banks as some of these banks have witnessed recent capital infusion from GOI, a portion of which is likely to be used to elevate provisions and bring down net NPLs. On the back of the recent rally in stock prices, we have downgraded IndusInd Bank and Ujjivan Financial Services

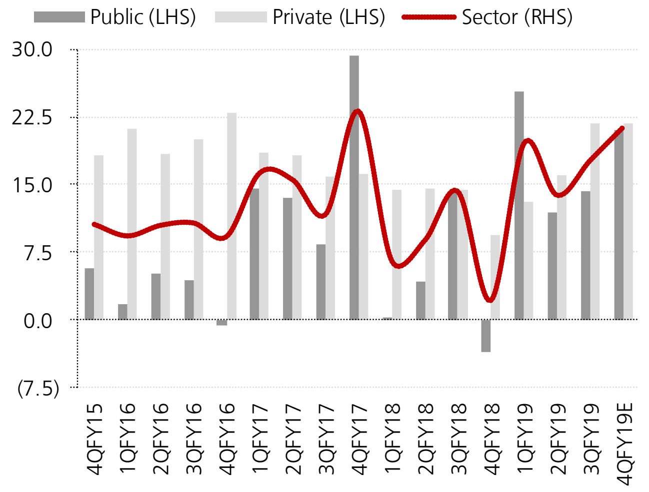
Exhibit 2: Private banks' profitability to almost double from a weak base yoy
Yoy growth in PAT, March fiscal year-ends, 4QFY15-4QFY19E (%)



Notes:
(1) PAT for public banks and the overall sector was negative in 4QFY18

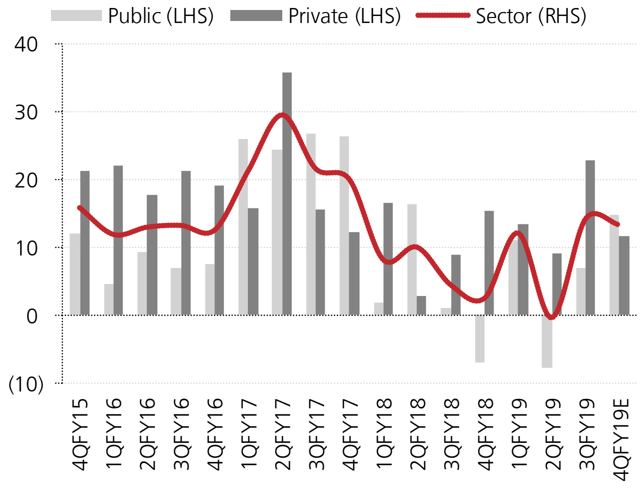
Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: NII growth momentum to accelerate to ~20% yoy
Growth in NII, March fiscal year-ends, 4QFY15-4QFY19E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Non-interest income to drag down revenue growth
Revenue growth, March fiscal year-ends, 4QFY15-4QFY19E (%)



Note: (1) Base quarter had one off impact of stake sale in subsidiaries by ICICI Bank and SBI.

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Earnings to show strong performance for a second consecutive quarter
YoY and QoQ growth in NII, PPoP and earnings, March fiscal year-ends, 4QFY18-4QFY19E

	Net interest income					Pre-provisioning profit					PAT				
	4QFY18 (Rs mn)	3QFY19 (Rs mn)	4QFY19E (Rs mn)	YoY (%)	QoQ (%)	4QFY18 (Rs mn)	3QFY19 (Rs mn)	4QFY19E (Rs mn)	YoY (%)	QoQ (%)	4QFY18 (Rs mn)	3QFY19 (Rs mn)	4QFY19E (Rs mn)	YoY (%)	QoQ (%)
Banks															
Public banks															
Bank of Baroda	40,023	47,432	49,294	23	4	26,655	35,385	34,913	31	(1)	(31,023)	4,712	14,559	NM	209
Canara Bank	29,876	38,138	33,421	12	(12)	17,647	23,572	23,283	32	(1)	(48,598)	3,175	(2,073)	NM	(165)
PNB	30,634	42,901	44,698	46	4	(4,474)	30,999	47,822	NM	54	(134,169)	2,465	(27,002)	NM	(1,195)
State Bank of India	199,743	226,910	236,544	18	4	158,829	126,250	179,689	13	42	(77,185)	39,548	67,594	NM	71
Union Bank	21,931	24,942	25,902	18	4	18,894	17,504	16,844	(11)	(4)	(25,834)	1,532	(14,377)	NM	(1,038)
Old private banks															
City Union Bank	3,679	4,181	4,290	17	3	2,943	3,069	3,244	10	6	1,521	1,781	1,795	18	1
DCB	2,637	2,936	3,054	16	4	1,416	1,738	1,692	20	(3)	642	861	868	35	1
Federal Bank	9,332	10,773	11,268	21	5	5,886	7,078	6,988	19	(1)	1,450	3,336	3,407	135	2
Karur Vysya Bank	6,429	5,808	5,948	(7)	2	4,797	4,250	4,355	(9)	2	506	212	14	(97)	(93)
J&K Bank	6,558	8,816	8,969	37	2	2,665	4,249	4,445	67	5	284	1,038	884	211	(15)
New private banks															
Axis Bank	47,305	56,037	58,745	24	5	36,722	55,247	48,023	31	(13)	(21,887)	16,809	15,881	NM	(6)
HDFC Bank	106,577	125,768	131,057	23	4	88,357	107,784	106,897	21	(1)	47,993	55,859	57,846	21	4
ICICI Bank	60,217	68,753	72,029	20	5	75,140	61,464	63,524	(15)	3	10,200	16,049	28,517	180	78
IndusInd Bank	20,076	22,881	23,633	18	3	17,694	21,170	18,331	4	(13)	9,531	9,850	5,995	(37)	(39)
RBL	5,005	6,551	6,938	39	6	3,831	4,985	5,190	35	4	1,781	2,252	2,542	43	13
Yes Bank	21,542	26,664	25,590	19	(4)	21,354	19,904	19,374	(9)	(3)	11,794	10,019	8,532	(28)	(15)
Small finance banks															
Equitas	2,485	3,203	3,563	43	11	675	1,225	1,636	142	34	350	625	731	109	17
Ujjivan	2,109	2,550	2,801	33	10	1,325	737	1,042	(21)	41	648	452	535	(17)	18
Total banks	**616,156**	**725,242**	**747,744**	**21**	**3**	**480,354**	**526,608**	**587,292**	**22**	**12**	**(251,996)**	**170,575**	**166,249**	**NM**	**(3)**
Public banks	**322,206**	**380,322**	**389,858**	**21**	**3**	**217,551**	**233,710**	**302,551**	**39**	**29**	**(316,809)**	**51,433**	**38,701**	**NM**	**(25)**
Private banks	**293,950**	**344,919**	**357,886**	**22**	**4**	**262,804**	**292,899**	**284,741**	**8**	**(3)**	**64,813**	**119,142**	**127,548**	**97**	**7**

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Strong recovery in profitability compared to losses in 4QFY18
Yoy growth in PAT, March fiscal year-ends, 4QFY18-4QFY19E (%)

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Public banks					
Bank of Baroda	(2,105)	160	20	322	NM
Canara Bank	(2,369.0)	11.9	15.1	152.5	NM
PNB	(5,222.9)	(373.7)	(908.5)	7.1	NM
State Bank of India	NM	(343.1)	(40.3)	NM	NM
Union Bank	(2,472.9)	11.1	NM	NM	NM
Old private banks					
City Union Bank	18.0	15.2	16.0	15.2	18.0
DCB Bank	21.5	6.6	24.7	51.0	35.1
Federal Bank	(43.5)	25.0	0.9	28.1	135.0
Karur Vysya Bank	(76.8)	(69.0)	10.7	(70.3)	(97.1)
J&K Bank	NM	74.9	30.9	43.2	211.3
New private banks					
Axis Bank	(278.7)	(46.3)	82.6	131.4	NM
HDFC Bank	20.3	18.2	20.6	20.3	20.5
ICICI Bank	(49.6)	(105.8)	(55.8)	(2.7)	179.6
IndusInd Bank	26.8	23.8	4.6	5.2	(37.1)
RBL	36.9	34.8	35.8	36.2	42.7
Yes Bank	29.0	30.5	(3.8)	(7.0)	(27.7)
Small finance banks					
Equitas	405.6	126.5	355.2	NM	109.2
Ujjivan	234.9	NM	NM	54.3	(17.4)
Total banks	**(490.0)**	**(72.6)**	**(34.9)**	**157.9**	**NM**
Public sector banks	**NM**	**(266.9)**	**(321.9)**	**NM**	**NM**
Private sector banks	**(29.3)**	**(14.2)**	**3.1**	**21.4**	**96.8**

Note:
(1) "NM" indicates loss in the base quarter and profit in current quarter.

Source: Source: Companies, Kotak Institutional Equities estimates

BANKS: RETAIL LOAN AND NBFCS MAINTAIN MOMENTUM

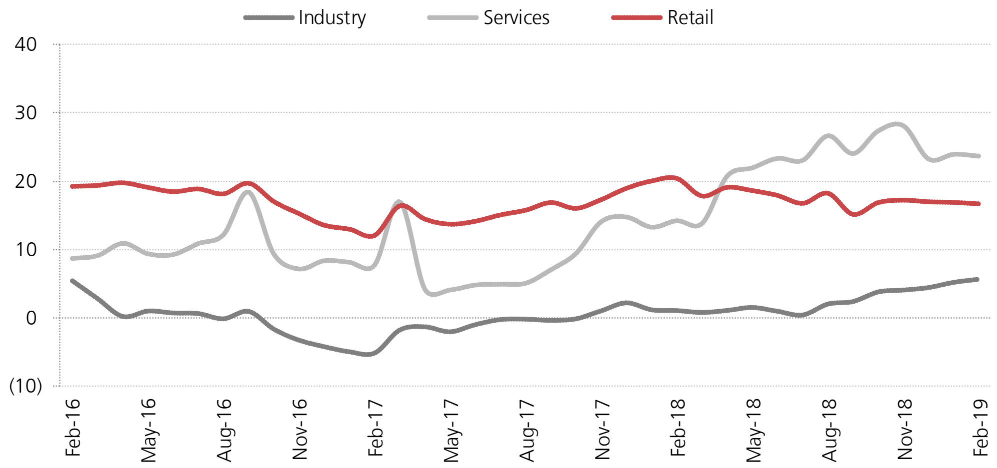
System loan growth remains robust at 15% yoy

As per the latest available data (February 2019) for the banking system, loan growth has maintained a robust pace of growth at ~15% yoy, compared to 10-11% in 4QFY18. The pick-up in the pace of bank credit has been driven by a sharp spike in retail loans and lending to NBFCs. Growth in retail loans has been driven by strong uptick in unsecured loans like credit cards and personal loans (up 25% and 20% yoy respectively in January and February 2019). The pace of growth in credit cards has seen a slight dip over the last few months. Housing loans have seen a modest upward push to 20% yoy. There has been a slowdown in lending towards secured products like auto and commercial vehicle financing mainly on low growth in the industry. Demand for commercial vehicles will likely pick pace in 1HFY20E on account of pre-buying due to new BS-VI norms.

The relative tightening of liquidity is resulting in an increase in the borrowing cost of alternative sources of borrowings like commercial papers and debentures. This has made bank funding for NBFCs an important medium to maintain liquidity resulting in robust growth of lending to NBFCs at ~50% yoy in January-February 2019. Corporate loan growth, though muted, continues to crawl upwards (up 5% yoy in February 2019). There however exists diversity in corporate lending across sectors with some segments like renewable energy attracting strong credit growth compared to others like iron and steel.

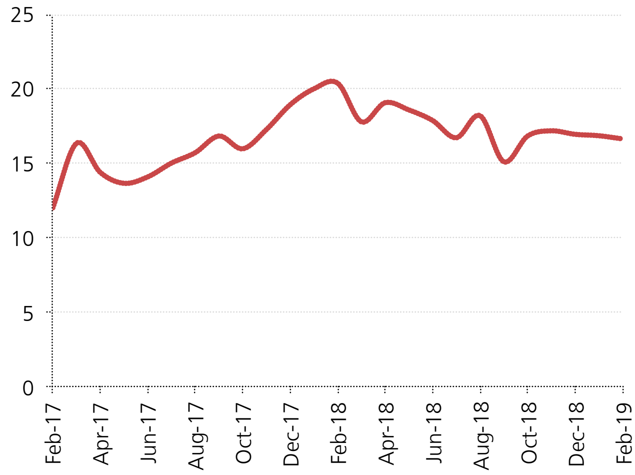
Exhibit 7: Credit growth has maintained pace

Yoy credit growth across industry, services and retail segments, March fiscal year-ends, February 2016-February 2019 (%)



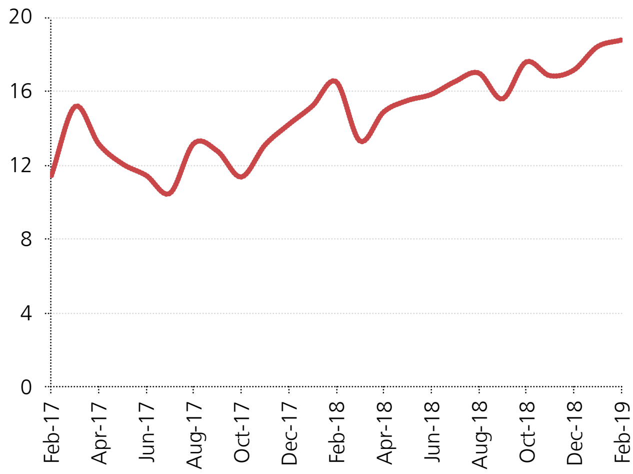
Source: RBI, Kotak Institutional Equities

Exhibit 8: Retail loan growth continues to remain healthy at 17%
Growth in retail loans, March fiscal year-ends, February 2017-February 2019 (%)



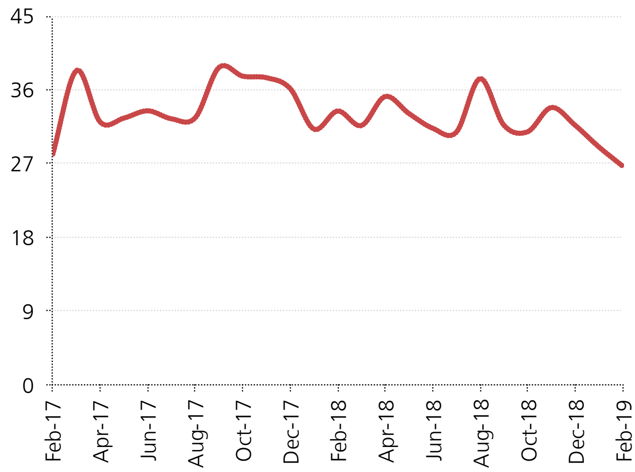
Source: RBI, Kotak Institutional Equities

Exhibit 9: Housing loans continue to show strong growth at 19% yoy
Growth in housing loans, March fiscal year-ends, February 2017-February 2019 (%)



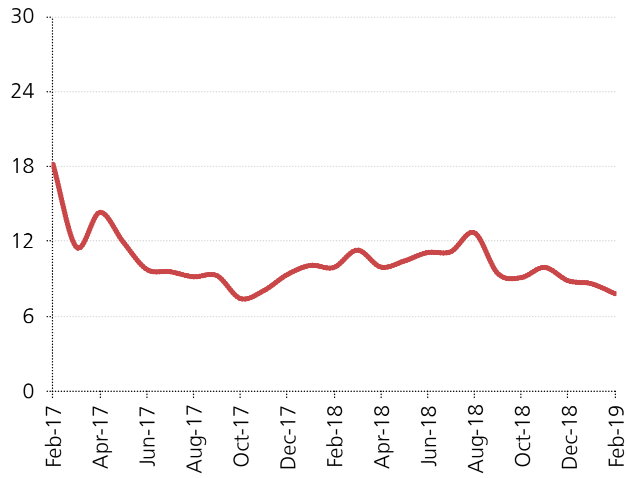
Source: RBI, Kotak Institutional Equities

Exhibit 10: Credit card loan growth slows to 27%
Growth in credit card receivable, March fiscal year-ends, February 2017- February 2019 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 11: Auto loans growth decelerates to 8% yoy
Growth in vehicle loans, March fiscal year-ends, February 2017-February 2019 (%)



Source: RBI, Kotak Institutional Equities

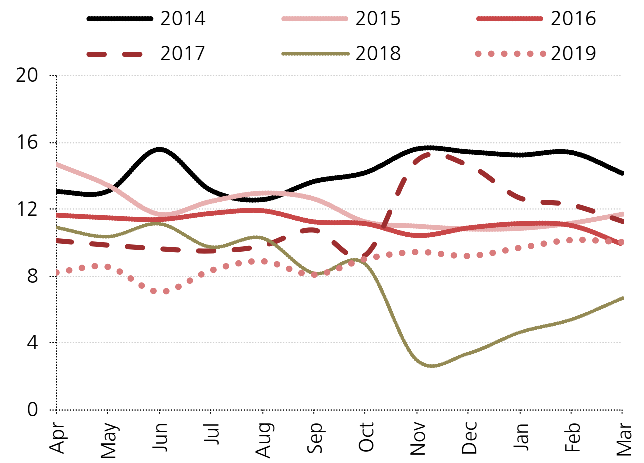
Corporate loan growth remains muted. Corporate loan growth trends were broadly unchanged during the quarter as corporate loans saw tepid 5% yoy growth in February 2019 as per the latest RBI release. Corporate loans continue to increase albeit a slow pace. Slowdown in capex investments has led to lower fresh disbursements in the space. Rising slippages from the corporate book from 2HFY18-1HFY19 clubbed with lower disbursements led to muted loan growth in this segment. However, loan growth varies across segments in the corporate space. While lending to the overall infrastructure space remains low, fresh disbursements in the renewables space have increased. Most banks have increased focus towards lending to better rated corporates where the competition is relatively higher. The share of A+ and above rated loans in the overall corporate loan mix has seen improvement for Bank of Baroda over the last few quarters.

On the positive side we see a few new developments. Competition from alternate markets like commercial papers or debentures has weakened substantially which has led to an increase in bank funding for NBFCs. Loan growth in the service sector has seen a sharp rise with loans to NBFCs witnessing 50% yoy growth in January-February 2019. Most NBFCs witnessed a 50-100 bps rise in incremental cost of market borrowings led by rising rates of CPs and NCDs and have reverted to bank borrowings to fuel growth.

Strong traction in unsecured loans drives robust momentum in retail loans. Retail loan growth at 17% yoy in February 2019 was broadly similar to that of the last few quarters. Retail loans saw sluggish growth at 12-15% yoy for 2-3 quarters post demonetization and started to pick pace post that. Unsecured loans dominate incremental growth in retail loans with credit cards and personal loans increasing 25% and 20% yoy respectively in 4QFY19. Housing loans have started to pick momentum post 2-3 quarters of sluggish growth from 2QFY18 onwards (up 20% yoy in February 2019). Rising cost of funds for HFCs leading to a slowdown in disbursements by smaller players and increasing sell down of loans by these players will further boost housing loans for banks in the near-term. Competition however continues to rise in the retail space as PSU banks have started to shift focus towards retail loans in the absence of corporate loan growth. Additionally, with some PSU banks moving out of the PCA framework, competition in the retail segment is expected to intensify further.

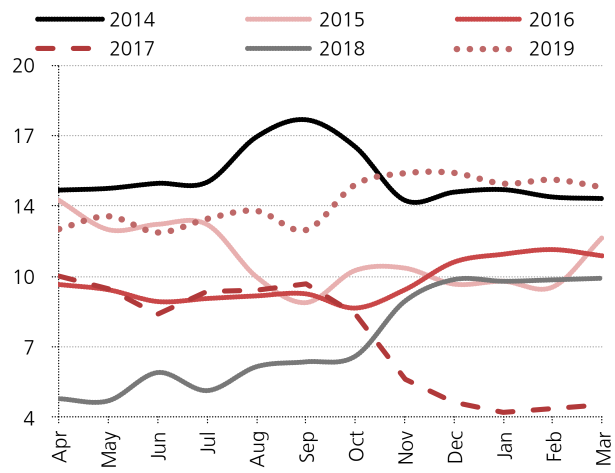
Small Finance Banks accelerate loan growth. Equitas and Ujjivan will deliver robust AUM growth led by strong growth in the MFI space and pick up in business momentum in the new segments. MFI industry has seen strong growth at 50% over the last two quarters. While Equitas saw a rapid decline in the MFI book post demonetization, MFI loans increased 10% qoq in 3QFY19. Asset quality in the MFI segment has been stable for banks over the last few quarters (PAR-30 stable around 0.6-0.7%). Collections efficiency continued to improve across most areas which were affected by demonetization. Cashless disbursements have also started to pick pace. Rise in other retail loans like housing and vehicle finance will further fuel growth for Small Finance Banks.

Exhibit 12: Deposits growth has started to pick pace
Yoy growth in deposits, March fiscal year-ends, 2014 – March 2019 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 13: Loan growth remains strong at ~15% yoy
Yoy growth in advances, March fiscal year-ends, 2014 – March 2019 (%)



Source: RBI, Kotak Institutional Equities

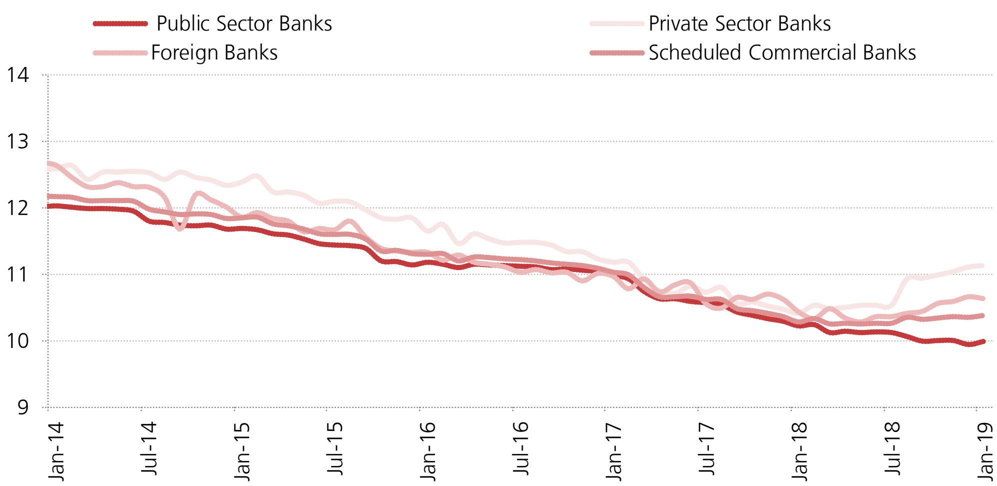
Deposit growth maintains stable growth at 10% yoy in 4QFY19

Deposit growth at 10% yoy levels in 4QFY19 (similar to 3QFY19) is broadly similar to pre-demonetization levels but still lags loan growth. Deposit growth has been broadly increasing over the last few months. CASA ratio continues to improve driven by increasing penetration but growth in CASA has been tepid, largely led by muted growth in current account balances. Most banks have raised their term deposit rates in recent months given pick-up in loan growth and gradual tightening of liquidity in the system. Weighted average term deposit rates have increased marginally over the last few months. Historically, the correlation between the rise in term deposit rates and growth in term deposits has been positive, although weak. The main challenge remains in the structure of the deposits and lending markets where the shift in market share on deposits has been slower to private banks as compared to loans, especially large ticket corporate loans.

MCLR rates peaked in 4QFY19

As per the latest release by RBI, outstanding lending yields trend upwards albeit at a slower pace. There has however been a steep spike in fresh lending rates. The outcomes are similar for private and public banks though the pace of the hike is sharper for private banks. MCLR rates were flat between December-February 2019 at 8.8% for private banks and 9.3% for PSU banks. Some banks have decreased MCLR rates in March and April 2019. Fresh loans lending rates increased 15 bps MoM in January 2019 driven by 20 bps MoM increase for private banks. The gap between fresh lending rates and weighted average lending rates has dropped to <50 bps. Increase in fresh lending rates is unlikely from here onwards as most companies focus on higher share of low yielding retail products and lending to better rated corporates. Term deposit rates have broadly stabilized post recording a strong increase in 2HFY18. With gradual revival in lending from PSU banks (five PCA banks have exited the PCA framework) and flat loan growth at ~15%, private banks will gradually soften growth trends leading to reduction in the CD ratio (operate at >90% CD ratio). This will reduce pressure on private banks to borrow at higher rates as passing the benefit was challenging. As such, NIM compression is arrested and is expected to improve further going ahead.

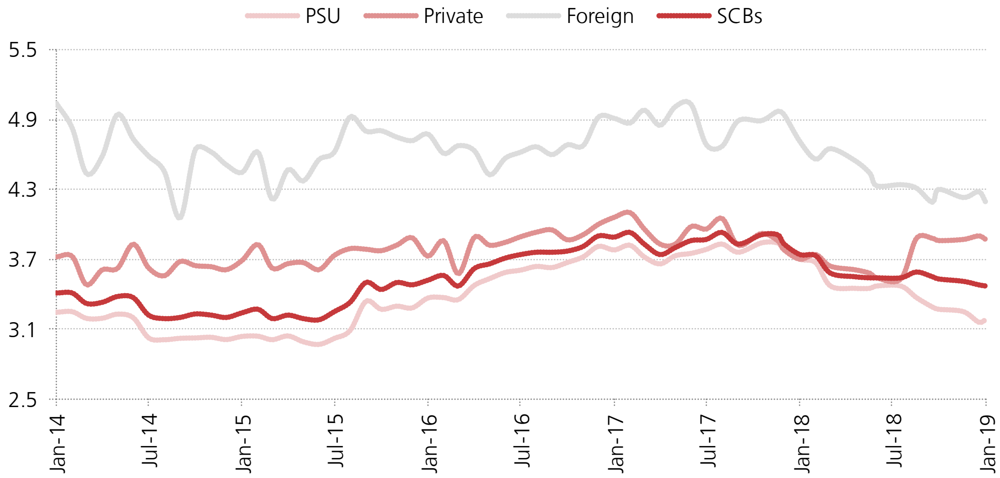
Exhibit 14: Weighted average lending rates have improved by ~10 bps yoy
Bank group-wise weighted average lending rates, January 2014 – January 2019 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 15: Spread between lending and term deposit rates is down ~30 bps yoy

Bank group-wise spread between weighted average lending and weighted average term deposit rates, January 2014 – January 2019 (%)



Source: RBI, Kotak Institutional Equities

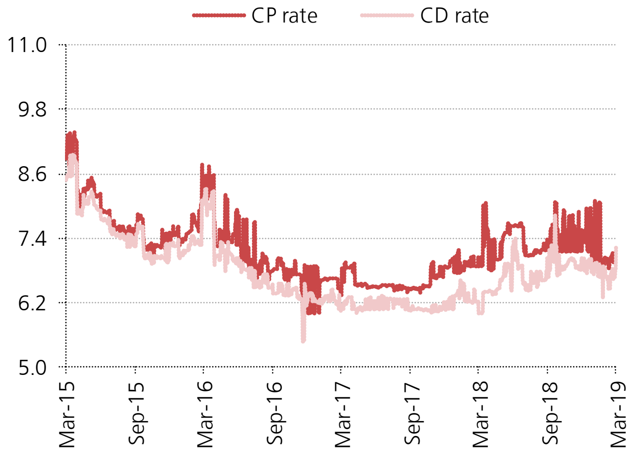
Exhibit 16: NII growth to accelerate further to 21% yoy

YoY growth in NII, March fiscal year-ends, 4QFY18-4QFY19E (%)

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Public banks					
Bank of Baroda	11.7	28.7	20.8	7.9	23.2
Canara Bank	10.3	43.1	17.9	3.7	11.9
PNB	(16.8)	21.7	(1.0)	7.6	45.9
State Bank of India	(5.2)	23.8	12.5	21.4	18.4
Union Bank	(8.1)	17.1	7.4	(2.1)	18.1
Old private banks					
City Union Bank	18.5	9.5	12.2	14.5	16.6
DCB	19.7	17.1	13.6	17.2	15.8
Federal Bank	10.8	22.4	13.7	13.4	20.7
Karur Vysya Bank	10.8	8.4	4.3	3.4	(7.5)
J&K Bank	0.1	9.4	9.6	13.0	36.8
New private banks					
Axis Bank	0.0	11.9	15.3	18.4	24.2
HDFC Bank	17.7	15.4	20.6	21.9	23.0
ICICI Bank	1.0	9.2	12.4	20.5	19.6
IndusInd Bank	20.4	19.6	21.0	20.8	17.7
RBL	42.1	46.1	41.1	40.2	38.6
Yes Bank	31.4	22.7	28.2	41.2	18.8
Small finance banks					
Equitas	12.5	17.9	21.7	37.2	43.4
Ujjivan	53.9	60.9	45.4	30.2	32.8
Total	2.2	19.6	13.8	17.7	21.4
Public banks	(3.6)	25.3	11.8	14.2	21.0
Private banks	9.4	13.1	16.1	21.7	21.8

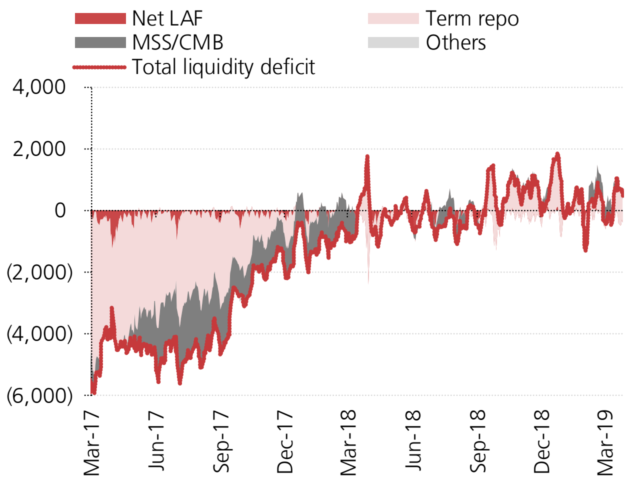
Source: Company, Kotak Institutional Equities estimates

Exhibit 17: CP and CD rates broadly flat in 4QFY19
CP and CD rates, March 2015- March 2019 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 18: Liquidity continues to remain deficit
Liquidity basket, March 2017-March 2019 (₹ bn)



Source: Bloomberg, RBI, Kotak Institutional Equities

Exhibit 19: SBI's MCLR rates were up 40 bps yoy in April 2019
SBI MCLR rates, January 2018–April 2019 (%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Overnight	7.70	7.70	7.80	7.80	7.80	7.90	7.90	7.90	8.10	8.15	8.15	8.20	8.20	8.20	8.20	8.20
One month	7.80	7.80	7.80	7.80	7.80	7.90	7.90	7.90	8.10	8.15	8.15	8.20	8.20	8.20	8.20	8.20
Three month	7.85	7.85	7.85	7.85	7.85	7.95	7.95	7.95	8.15	8.20	8.20	8.25	8.25	8.25	8.25	8.25
Six month	7.90	7.90	8.00	8.00	8.00	8.10	8.10	8.10	8.30	8.35	8.35	8.40	8.40	8.40	8.40	8.40
One year	7.95	7.95	8.15	8.15	8.15	8.25	8.25	8.25	8.45	8.50	8.50	8.55	8.55	8.55	8.55	8.55
Two years	8.05	8.05	8.25	8.25	8.25	8.35	8.35	8.35	8.55	8.60	8.60	8.65	8.65	8.65	8.65	8.65
Three years	8.10	8.10	8.35	8.35	8.35	8.45	8.45	8.45	8.65	8.70	8.70	8.75	8.75	8.75	8.75	8.75

Source: Company, Kotak Institutional Equities

Muted growth in treasury income

Other income will grow at a muted pace at 5% yoy in 4QFY19E on the back of muted growth in treasury income and slowdown in fees from third party products. Treasury income will increase at a muted pace of 5% yoy in 4QFY19E (adjusted for gains from strategic stake sale by ICICI Bank in ICICI Securities). Growth in fee income is expected to remain moderate due to increasing competition in the retail space and muted activity on the corporate side. Additionally, increase in fee income from the sale of retail third party products will likely moderate as fee income from the sale of mutual funds will be lower. Income from recovery of written-off loans in 2HFY19E will be lower than 1HFY19 owing to the slowdown of resolution of lumpy stressed accounts under NCLT.

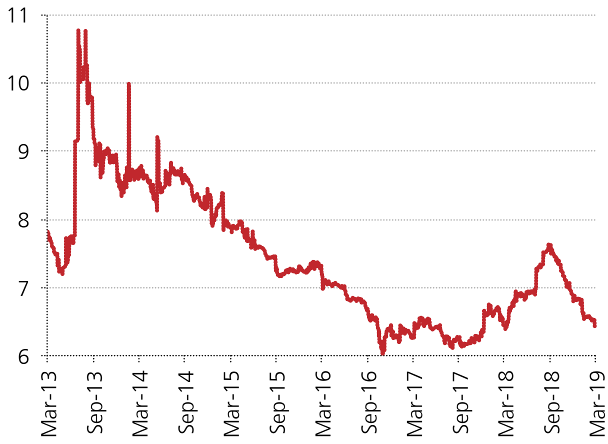
Exhibit 20: Treasury income to drag down revenue growth in 4QFY19
Growth in treasury income, March fiscal year-ends, 4QFY18–4QFY19E (%)

	Income from treasury (Rs mn)					Income from treasury (% of PBT)				
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Public banks										
Bank of Baroda	1,700	1,050	870	3,820	260	NM	13	13	51	1
Canara Bank	670	610	70	920	1,400	NM	17	NM	24	59
PNB	2,160	2,320	1,890	4,190	20,100	NM	NM	NM	121	NM
State Bank of India	9,410	(12,640)	13,280	4,250	(59)	NM	NM	73	6	NM
Union Bank	1,320	1,940	820	1,100	140	NM	NM	70	83	NM
Old private banks										
City Union Bank	301	193	213	208	206	14	9	9	9	8
DCB Bank	42	153	31	112	58	4	14	3	8	5
Federal Bank	220	490	510	550	150	10	12	12	11	3
Karur Vysya Bank	80	70	(210)	270	270	9	19	(14)	110	144
J&K Bank	226	92	(259)	108	29	147	10	(15)	6	2
New private banks										
Axis Bank	2,180	1,030	1,360	3,790	820	NM	10	12	15	4
HDFC Bank	(220)	(2,832)	(328)	4,740	920	(0)	(4)	(0)	6	1
ICICI Bank	26,850	7,660	(350)	4,790	2,900	302	NM	(3)	25	7
IndusInd Bank	950	1,370	990	2,030	410	7	9	7	13	5
RBL Bank	420	370	81	277	72	16	13	3	8	2
Yes Bank	945	1,700	820	(592)	572	5	9	6	(4)	5
Total	**46,385**	**2,578**	**19,503**	**29,315**	**27,536**	**NM**	**7**	**23**	**12**	**19**
Public banks	**15,260**	**(6,720)**	**16,930**	**14,280**	**21,841**	**NM**	**NM**	**NM**	**17**	**NM**
Private banks	**31,125**	**9,298**	**2,573**	**15,035**	**5,694**	**38**	**8**	**2**	**9**	**3**

Note:
1) "NM" indicates PBT loss in the quarter.

Source: Companies, Kotak Institutional Equities estimates

Exhibit 21: Short-term yields have declined by ~48 bps in 4QFY19
Yield of 1-year G-Sec, March 2013- March 2019 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 22: Long-term yields were flat in 4QFY19
Yield of 10-year G-Sec, March 2013- March 2019 (%)

Source: Bloomberg, Kotak Institutional Equities

Asset quality continues to improve; slippages will maintain declining trends

Slippages are expected to normalize going ahead as most of the corporate sector stressed assets have broadly been recognized in 1HFY19. Most of the restructured assets (including restructuring under various RBI dispensations) slipped into NPLs in previous quarters. As we have highlighted in our previous notes, early warning indicators and SMA-0/1/2 trends do not indicate build-up of stress in any specific sector. As such slippages are expected to normalize going ahead. While slippages from the corporate sector will be lower, slippages from agriculture and SME segments might see a modest increase due to the recently announced farm loan waivers by various state governments.

Credit cost is likely to decline from 4QFY19E due to sufficient provisioning in the previous quarters. Most banks maintain comfortable coverage of 65-75% on accounts under NCLT. The major spike in provisions will be led by additional provisions for accounts under the IL&FS group. For PSU banks which received capital from GOI in 4QFY19, the choice will be between increasing provisions and reducing net NPL or improving capital adequacy. As such, we have built in elevated credit cost for these companies in 4QFY19.

Exhibit 23: Provision coverage ratios improved in 3QFY19
Calculated provision coverage ratio, 3QFY18-3QFY19 (%)

	Exc write-off					Inc write-off				
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Public banks										
BoB	59.1	58.4	59.9	61.8	64.0	68.0	67.2	69.1	70.8	73.5
Canara	37.3	39.9	40.2	40.8	40.4	55.8	58.1	60.7	61.4	62.5
PNB	40.8	43.8	47.1	52.9	54.1	60.8	58.4	61.8	66.9	68.9
SBI	48.6	50.4	53.4	53.9	56.9	65.9	66.2	69.3	70.7	74.6
Union	50.2	50.7	50.0	50.8	51.4	57.1	57.2	56.5	57.7	58.8
Old private banks										
City Union Bank	47.9	44.6	44.4	41.3	40.8	65.0	64.0	65.0	65.0	65.0
DCB	54.4	60.2	61.6	62.1	63.3	73.4	75.7	76.1	76.8	77.0
Federal Bank	46.5	44.5	43.5	43.6	45.9	70.0	65.0	64.7	63.4	64.2
Karur Vysya Bank	36.2	38.2	41.4	44.7	43.4	54.1	56.5	56.5	58.5	56.1
J&K Bank	60.1	53.5	55.4	59.0	55.5	69.5	65.8	66.8	69.5	65.8
New private banks										
Axis Bank	52.9	51.6	54.4	58.9	60.4					
HDFC Bank	66.3	69.8	69.5	70.0	69.7					
ICICI Bank	48.3	48.4	54.8	59.5	68.4					
Yes	46.4	50.0	55.3	47.8	44.2					
RBL	38.3	44.3	46.4	47.1	47.8					
IndusInd Bank	60.5	56.3	56.2	55.8	47.7					

Source: Company, Kotak Institutional Equities

Exhibit 24: Restructured loans and net NPLs to total loans are at ~5% for public banks, ~2% for private banks
Restructured loans and net NPLs, March fiscal year-ends, 3QFY18-3QFY19 (%)

	Restructured loans (%)					Net NPLs (%)					Net NPL and restructured loans (%)				
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Public banks															
BoB	2.3	1.3	NA	NA	NA	5.0	5.5	5.4	4.9	4.3	7.2	6.8	NA	NA	NA
Canara	1.9	1.0	1.1	1.0	0.9	6.8	7.5	6.9	6.5	6.4	8.7	8.5	8.0	7.5	7.3
PNB	2.1	1.2	0.9	0.2	0.2	7.6	11.2	10.6	8.9	8.2	9.7	12.4	11.5	9.1	8.4
SBI	1.1	0.3	NA	NA	NA	5.6	5.7	5.3	4.8	4.0	6.8	6.0	NA	NA	NA
Union	1.2	0.4	0.3	0.4	0.4	7.0	8.4	8.7	8.4	8.3	6.4	18.3	11.9	11.4	10.2
Old private banks															
City Union	0.0	0.0	0.0	0.0	0.0	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7	1.7
DCB	0.1	NA	NA	NA	NA	0.9	0.7	0.7	0.7	0.7	1.0	NA	NA	NA	NA
Federal	1.7	0.9	0.6	0.6	0.6	1.4	1.7	1.7	1.8	1.7	3.0	2.6	2.3	2.4	2.3
Karur Vysya	1.6	0.6	0.1	0.1	0.0	3.9	4.2	4.5	4.4	5.0	5.5	4.7	4.6	4.5	5.0
J&K	9.8	8.2	6.9	6.2	5.8	4.3	4.9	4.7	3.9	4.7	14.1	13.1	11.6	10.1	10.5
Private															
Axis	1.5	0.2	0.2	0.2	NA	2.6	3.4	3.1	2.5	2.4	4.1	3.6	3.3	2.7	NA
HDFC Bank	0.0	0.0	NA	NA	NA	0.4	0.4	0.4	0.4	0.4	0.5	0.4	NA	NA	NA
ICICI	0.4	0.3	0.3	0.3	0.1	4.7	5.4	4.7	4.1	2.9	5.1	5.7	5.0	4.3	3.0
IDFC First Bank	1.0	1.0	1.3	NA	NA	2.5	1.7	1.6	0.6	1.0	3.5	2.7	2.9	NA	NA
IndusInd	0.1	0.1	0.0	0.1	0.1	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7
RBL	0.2	0.1	0.1	0.1	0.1	1.0	0.8	0.8	0.7	0.7	1.2	0.9	0.9	0.8	0.8
Yes	0.1	0.0	0.0	0.1	0.1	0.9	0.6	0.6	0.8	1.2	1.0	0.7	0.6	0.9	1.3
Total	1.4	0.7	0.7	0.5	0.4	4.3	4.7	4.4	3.9	3.4	5.7	5.4	5.1	4.5	3.9
Public banks	1.5	0.6	0.8	0.5	0.5	5.7	6.4	6.0	5.5	4.8	7.2	7.0	6.8	6.0	5.3
Private banks	0.9	0.5	0.6	0.6	0.4	2.1	2.3	2.0	1.8	1.6	2.9	2.7	2.6	2.3	2.0

Source: Company, Kotak Institutional Equities

Exhibit 25: Credit cost to moderate going ahead
Credit cost of banks, March fiscal year-ends, 4QFY18-4QFY19E (Rs mn)

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Public banks					
Bank of Baroda	6.6	1.7	1.4	3.0	0.9
Canara Bank	8.8	2.4	2.4	2.6	1.7
Punjab National Bank	13.3	4.8	7.2	2.4	7.8
State Bank of India	5.0	2.8	2.1	2.7	1.5
Union Bank	7.0	2.2	1.9	2.7	3.7
Old private banks					
City Union Bank	0.8	1.0	0.6	1.0	0.7
DCB	0.7	0.6	0.5	0.7	0.6
Federal Bank	1.1	0.7	0.7	0.8	0.7
Karur Vysya Bank	3.3	3.2	1.8	3.6	2.9
J&K Bank	2.4	1.6	0.8	1.5	1.6
New private banks					
Axis Bank	7.0	2.8	2.4	2.8	1.6
HDFC Bank	0.8	0.9	0.8	1.1	1.2
ICICI Bank	5.2	4.6	2.9	3.0	1.6
Yes Bank	0.6	0.7	0.9	1.3	1.0
RBL	0.7	1.0	1.0	1.2	0.9
IndusInd Bank	0.8	0.6	1.2	1.3	2.3
Small finance banks					
Equitas	0.7	0.9	1.2	0.9	1.5
Ujjivan	1.8	0.8	0.3	0.3	0.6

Source: Companies, Kotak Institutional Equities estimates

NBFCS: A TAD BETTER

4QFY19E was a tad better than 3QFY19 with improved liquidity for most NBFCs under coverage. While loan growth picked up in select segments (retail housing, LAP etc), auto finance was weak reflecting a slowdown in volumes by large OEMs. The sharp rise in incremental funding costs post September 2018 will likely reflect in lower NIMs for the quarter. Seasonal trends suggest that asset quality performance improves in 4Q though strong recoveries over the last few quarters set a high base. Wholesale lending business continued to remain muted as many NBFCs continue to struggle on the liquidity front.

Mixed trends in loan growth

Business momentum of NBFCs typically picks up in 4Q. Unlike 3Q, availability of funds has not constrained most NBFCs under our coverage. On a low base of 3Q, disbursements likely picked up qoq in select segments like retail home loans, LAP etc. However, slowdown in auto sales led to weak new business in this segment. YoY loan growth will appear moderate in almost all segments due to (1) weaker disbursements since September 2018 and (2) high base of FY2018. NBFCs and HFCs continued to go slow on wholesale and developer loans as concerns on liquidity of real estate developers continues to provide an overhang.

Rise in incremental funding costs will put pressure on NIM

Sharp rise in incremental funding costs in 3QFY19 will likely reflect in NIM compression during 4QFY19. While incremental funding costs moderated during the quarter, the benefit of the same will reflect with a lag. Most NBFCs continued to keep high cash on balance sheets as overall liquidity remained tight for the quarter even as funding access improved over 3QFY19. While lending rates have gone up by 50-60 bps in auto loans, the benefit of the same will be reflected with a lag as the rise will be effected only on incremental loans. Competition from banks increased in large cities thereby constraining the ability of HFCs to fully pass on the rise in their borrowings cost. Reported NIM will be tempered by loan assignment by NBFCs which will result in large one-off income.

Asset quality on track

Our discussion with industry participants suggests that loan recoveries remained strong; this has been the key area of focus by NBFCs over the last two quarters while new business was weak. Seasonally, 4Q is a strong quarter for collections specifically in the rural business. However, on a strong base, we don’t find significant reduction in gross stage 3 loans. It will be challenging to predict the trends in provisions, which remains unclear, post implementation of Ind-AS from 1QFY19.

Exhibit 26: Mixed trends in earnings for NBFCs (though not directly comparable yoy)
Quarterly trends in yoy PAT growth, March fiscal year-ends, 4QFY18-4QFY19E (%)

	IGAAP	Ind-AS	Ind-AS	Ind-AS	Ind-AS
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Bajaj Finance	61	81	54	54	42
Cholamandalam	33	37	48	39	3
HDFC	37	62	36	(58)	(13)
IIFL	33	35	31	(12)	(35)
LICHF	3	38	12	26	(5)
L&T Finance (lending)	38	71	66	81	36
Magma Finance	23	75	5	65	19
Mahindra Finance	81	34	133	(20)	(11)
PNBHF	38	58	39	30	(18)
Shriram Transport	(3)	25	23	17	337
Shriram City Union Finance	291	15	6	2	375

Note:
(1) NBFC's earnings are not directly comparable on yoy basis due to migration to Ind-AS from 1QFY19.

Source: Company, Kotak Institutional Equities estimates

Exhibit 27: Core PBT growth trends are volatile across companies in the NBFC space (though not directly comparable yoy)
Quarterly trends in yoy core PBT growth, 4QFY18-4QFY19E (%)

	IGAAP	Ind-AS	Ind-AS	Ind-AS	Ind-AS
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Bajaj Finance	59	82	55	54	23
Cholamandalam	30	36	48	37	4
HDFC	13	23	18	15	4
IIFL	23	37	41	(8)	(35)
LICHF	4	34	17	20	(3)
L&T Finance (lending)	40	75	127	72	21
Magma Finance	NM	637	15	102	53
Mahindra Finance	84	38	122	(14)	(13)
PNBHF	46	31	51	12	4
Shriram Transport	(16)	25	24	18	398
Shriram City Union Finance	267	15	4	5	(1)

Note:
(1) NBFCs' earnings are not directly comparable on yoy basis due to migration to Ind-AS from 1QFY19.

Source: Company, Kotak Institutional Equities estimates

Exhibit 28: Slowdown in loan growth for most NBFCs
Quarterly trends in loan growth, March fiscal year-ends, 4QFY18-4QFY19E (%)

	IGAAP	Ind-AS	Ind-AS	Ind-AS	Ind-AS
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Bajaj Finance	40	35	38	41	40
Cholamandalam	25	30	31	29	24
HDFC	35	18	17	15	15
LIC Housing Finance	15	15	16	16	16
L&T Finance Holdings	28	26	26	23	15
Magma Finance	(3)	3	6	6	9
Mahindra Finance	18	21	26	30	19
Muthoot Finance	7	11	17	15	16
PNB Housing Finance	50	47	43	38	37
Shriram City Union Finance	19	20	18	10	11
Shriram Transport Finance	21	22	21	14	13

Source: Company, Kotak Institutional Equities estimates

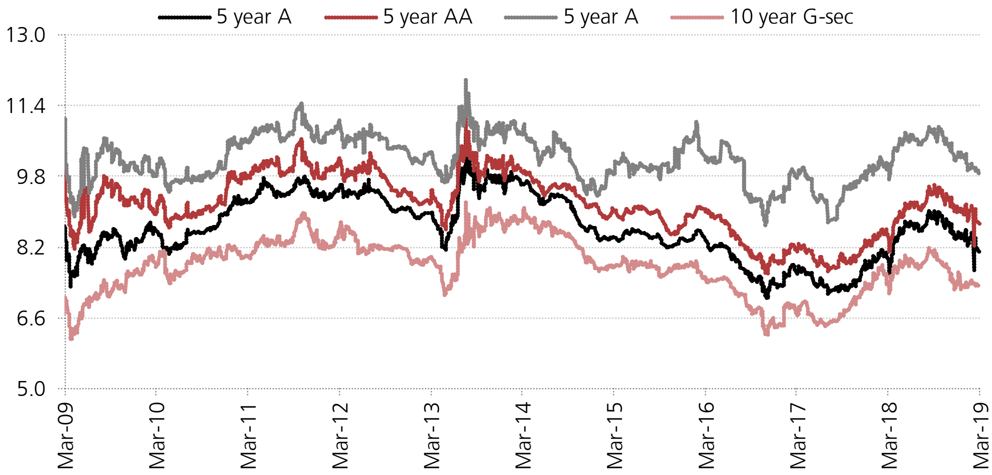
Exhibit 29: Marginal compression qoq in NIM (calculated) for most players
Quarterly trends in NIM, March fiscal year-ends, 4QFY18-4QFY19E (%)

	IGAAP	Ind-AS	Ind-AS	Ind-AS	Ind-AS
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19E
Bajaj Finance	11.4	11.4	11.1	12.0	11.1
Cholamandalam	8.7	7.4	7.0	7.1	6.9
HDFC	3.3	2.7	2.6	2.7	2.6
L&T Finance Holdings	5.4	5.0	5.2	5.6	5.7
LIC Housing Finance	2.5	2.4	2.4	2.4	2.2
Magma Finance	11.7	8.1	8.6	8.2	7.9
Mahindra Finance	10.6	8.1	8.4	8.5	8.0
Muthoot Finance	15.0	14.8	13.9	13.5	13.7
PNB Housing Finance	2.7	2.4	1.9	1.8	1.5
Shriam City Union Finance	12.1	13.2	13.8	12.4	12.9
Shriram Transport Finance	7.8	7.4	8.0	7.8	7.5

Note:
(1) NBFC's NIMs are not directly comparable on yoy basis due to migration to Ind-AS from 1QFY19.

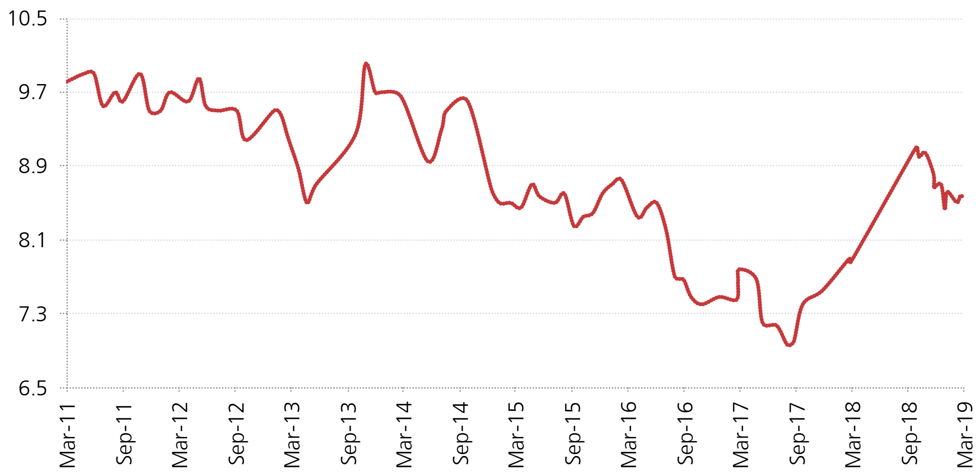
Source: Company, Kotak Institutional Equities estimates

Exhibit 30: Corporate spreads heading south
Yields on 5-year corporate bonds and 10-year G-Secs in India, March 2009-March 2019 (%)



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 31: Bond borrowing rates have started to normalize in 4QFY19
HDFC –Yields on 1-10 year bonds, March 2011- March 2019 (%)



Source: Prime Database, Bloomberg

Exhibit 32: Most NBFCs have a significant share of borrowings from banks
Composition of borrowings, March fiscal year-ends, 3QFY17-3QFY19 (% of total)

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
HDFC									
Term loans	12	13	12	13	13	15	16	18	21
Bonds/ debenture/ CPs	56	56	59	56	56	57	54	54	49
Deposits	32	31	30	31	31	29	30	28	30
LICHF									
Bank	9	9	9	9	10	10	12	16	14
NCDs	81	79	79	79	78	79	74	68	74
Tier-II	2	2	2	2	2	2	2	1	1
Deposit	4	5	5	5	5	5	5	4	5
NHB	2	3	3	3	2	1	1	1	1
CP and others	1	2	2	3	3	3	7	9	5
PNBHF									
Banks	5	7	7	7	11	8	18	20	17
NCDs	44	41	41	46	43	41	37	33	30
Cp and others	8	12	16	15	17	19	17	12	11
Public deposit	28	28	25	23	21	21	19	18	17
ECB	5	4	4	3	3	3	3	2	6
NHB	9	8	7	6	5	7	6	5	7
Assignment			-	-	-		-	10	12
L&TFH									
Term loan	14	16	14	15	15	16	35	36	36
NCDs and Others	45	43	49	46	46	43	45	46	48
LOC/CC/WCL/STL	27	22	24	22	22	23	NA	NA	NA
CP	14	19	13	17	17	18	20	18	16
STFH									
Banks/ institutional	81	82	NA	NA	NA	85	NA	NA	NA
Retail	19	19	NA	NA	NA	15	NA	NA	NA
Public deposits	NA	NA	12	12	12	NA	10	10	11
Term loans	NA	NA	24	25	28	NA	21	22	21
CPs (incl embedded NCDs	NA	NA	NA	1	1	NA	6	8	7
Subordinated debts	NA	NA	5	5	5	NA	6	5	7
Securitization	NA	NA	19	21	21	NA	22	19	20
Bonds	NA	NA	31	31	32	NA	29	29	33
Other borrowings	NA	NA	8	5	2	NA	6	6	2
SCUF									
Retail	24	23	26	22	20	17	17	15	16
Bank borrowings	55	56	56	59	60	60	59	55	54
Market borrowings	18	18	18	19	20	22	24	30	30
Chola									
Bank	35	35	26	34	33	45	37	39	39
CP	16	11	9	12	13	7	11	10	10
Debenture	37	42	34	42	43	37	26	25	24
Subordinated debt	12	12	31	12	11	11	26	26	27

Source: Company, Kotak Institutional Equities

Exhibit 33: Large rollover of NBFC CP/NCD with mutual funds
Schedule of CP/NCD redemptions of NBFC/HFCs to mutual funds, August 2018- February 2019 (Rs bn)

	Aug-18				Dec-18				Jan-19				Feb-19			
	CPs	NCDs	Total	% of total)	CPs	NCDs	Total	(% of total)	CPs	NCDs	Total	(% of total)	CPs	NCDs	Total	(% of total)
Sep-18	1,109	68	1,176	22	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Oct-18	585	82	667	12	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nov-18	649	60	709	13	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dec-18	90	94	184	3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Jan-19	59	41	99	2	615	53	668	15	NA	NA	NA	NA	NA	NA	NA	NA
Feb-19	97	82	178	3	686	94	780	17	731	99	830	18	NA	NA	NA	NA
Mar-19	36	170	206	4	284	192	477	10	535	213	749	16	623	211	835	19
Apr-19	2	80	82	2	32	84	116	3	327	96	423	9	421	96	517	12
May-19	0	35	35	1	77	36	113	2	97	39	136	3	428	43	471	11
Jun-19	14	126	140	3	56	117	173	4	69	123	192	4	74	126	200	4
Jul-19	-	59	59	1	-	50	50	1	-	47	47	1	3	43	46	1
Aug-19	9	116	125	2	13	107	120	3	15	106	121	3	19	101	120	3
Sep-19	-	141	141	3	-	105	105	2	2	102	105	2	22	106	128	3
Oct-19	-	44	44	1	0	36	36	1	0	32	32	1	0	34	35	1
Nov-19	-	55	55	1	23	48	71	2	31	45	76	2	33	41	74	2
Dec-19	-	39	39	1	19	53	73	2	42	53	95	2	73	52	124	3
Jan-20	-	62	62	1	-	62	62	1	9	61	70	2	17	60	77	2
Feb-20	-	58	58	1	-	62	62	1	-	61	61	1	42	69	111	2
Total	2,650	2,815	5,464	100	1,806	2,749	4,556	100	1,860	2,797	4,657	100	1,755	2,702	4,457	100

Source: ACE MF, Kotak Institutional Equities

Exhibit 34: Cash equity market volumes declined 8% yoy in 4QFY19
Average daily volumes on BSE and NSE, March fiscal year-ends, 2009-4QFY19 (Rs bn)

	Volumes in cash market							
	BSE	NSE	Total	YoY	F&O- NSE	YoY	Total vol.	YoY
Period	(Rs bn)	(Rs bn)	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
2009	45	113	158	(23)	453	(15)	611	(17)
2010	56	168	224	41	717	58	941	54
2011	44	141	184	(18)	1,148	60	1,332	42
2012	26	113	139	(25)	1,269	11	1,408	6
2013	32	127	158	(15)	1,306	56	1,465	43
2014	21	112	133	2	1,530	21	1,663	19
2015	36	181	217	63	2,327	52	2,544	53
1QFY16	26	177	203	(10)	2,700	45	2,903	39
2QFY16	28	177	205	(5)	2,602	9	2,807	8
3QFY16	27	163	189	(4)	2,236	(5)	2,425	(5)
4QFY16	28	173	201	(12)	3,012	12	3,212	10
1QFY17	26	174	200	(2)	2,983	10	3,183	10
2QFY17	34	216	249	21	3,762	45	4,011	43
3QFY17	29	195	224	18	4,036	80	4,259	76
4QFY17	65	232	298	48	4,469	48	4,767	48
1QFY18	41	254	295	48	5,367	80	5,662	78
2QFY18	38	270	308	23	6,259	66	6,567	64
3QFY18	46	312	358	60	6,806	69	7,164	68
4QFY18	45	342	386	30	8,249	85	8,635	81
1QFY19	33	301	334	13	8,362	56	8,696	54
2QFY19	32	337	369	20	10,027	60	10,396	58
3QFY19	28	316	344	(4)	9,681	42	10,025	40
4QFY19	31	323	354	(8)	10135	23	10489	21

Source: BSE, NSE, Bloomberg

Key highlights of 4QFY19E for NBFCs under coverage

(Not comparable yoy as NBFCs migrated to Ind-AS since 1QFY19)

- **Bajaj Finance**. We expect Bajaj Finance to deliver 42% yoy PAT growth (versus 4QFY18 IGAAP earnings) and 3% qoq decline, in line with seasonal trends. Typically, 1Q and 3Q are strong quarters. We expect loan growth at 7% qoq in 4QFY19E, down from 10% in 3QFY19 and 7% in 2QFY19. NIM will likely moderate to 11.1% (similar to 2QFY19) down from 12% in 3QFY19, in line with seasonal trends. Cost/income ratio will remain under control at 37% (35-38% over the last four quarters). We don't expect any significant changes on asset quality trends

- **Cholamandalam.** We expect Chola's earnings to remain almost flat qoq. Slowing loan growth (5% qoq and 24% yoy, down from 29% yoy in 3QFY19), coupled with margin compression (20 bps qoq), reflecting increase in cost of borrowings post October 2019 will put pressure on NII. We expect recoveries to remain strong though reducing provisions from current levels will be challenging.

- **HDFC.** We expect HDFC to deliver 30% qoq growth in earnings largely on the back of capital gains booked from Gruh Finance and dividend income from subsidiaries (booked in 3Q in previous FY). While retail loan growth inched up a bit (5% qoq from 3% qoq in 3QFY19), wholesale loan book will likely remain flat. Higher marginal funding costs will likely lead to 10 bps qoq NIM compression even as the company raised lending rates to pass on the hike.

- **IIFL Holdings.** We forecast flat qoq earnings for IIFL Holdings. While broking income was strong with 15% yoy growth in cash market volumes on BSE/NSE, NII will likely remain flat qoq on the back of flat loan book and NIM. Wealth management reported significant weakness with 27% decline in 3QFY19, we expect its income to bounce back by 10% qoq.

- **LIC Housing Finance.** We expect LICHF to report 4% qoq decline in earnings. We expect NII to decline 6% qoq due to 20 bps NIM compression to 2.2% reflecting an increase in marginal funding cost even as loan growth will likely be strong at 6% qoq, up from 3% qoq in 3QFY19. Provisions will decline 30% qoq as recoveries typically pick up in 4Q.

- **L&T Finance Holdings.** LTFH will likely report flat earnings qoq. We expect loan growth at 1% qoq loan growth (down from 5% qoq in 3QFY19) as wholesale and real estate business continues to slowdown. Rise in cost of funds will lead to margins compression in NIM (including fees) to 6.5% (down from 6.7% in 3QFY19).

- **Mahindra Finance.** We expect Mahindra Finance to deliver 19% qoq growth in earnings. We forecast 4% qoq loan growth, down from 6% in 3QFY19, reflecting slowdown in auto sales. Increase in incremental funding costs will drive 50 bps qoq NIM compression to 8%. Strong recoveries will reduce credit cost/AUM ratio by 40 bps to 1.1%.

- **Magma Fincorp.** We expect Magma to deliver 2% qoq loan growth; coupled with 20 bps qoq NIM compression, NII will likely be down 2% qoq. While cost to income remains stable, strong recoveries will ensure 15 bps improvements in credit costs.

- **Muthoot Finance.** Muthoot will likely report 6% qoq decline in earnings. We expect loan growth to resume to about 4% qoq levels (4.3% in 2QFY19; 0.5% in 3QFY19) as liquidity in the funding market improved. Lower cash on balance sheet will likely boost NIM by 20 bps qoq to 13.7%. We have assumed 400 bps qoq rise in cost/income ratio to 34% and 60 bps rise in credit cost/loans ratio to 4.8% - the key reason for lower estimates.

- **PNB Housing Finance.** We expect PNBHF to deliver 7% qoq loan growth, a bit lower than 9% in 3QFY19. NIM will likely moderate 10 bps to 1.95%, reflecting the declining trend over the last four quarters; the company raised lending rates in 3QFY19 which will help partially reduce the impact of rise in incremental funding costs. We model credits costs at 35 bps (stable qoq). Gains on loan assignment can significantly boost reported earnings and are challenging to forecast.

- **Shriram City Union Finance.** We expect PNBHF to deliver 7% qoq NII growth on the back of 6% qoq loan book growth to Rs306 bn and 50 bps NIM expansion to 12.9%. On the back of muted 3QFY19 (qoq loan book down 3%), the company will resume growth in 4QFY19E due to increase in funding lines from banks. We don't find any major change in expenses ratios. Credit cost will bounce back to 3% of AUMs, which, the company managed to pull back to 1.8%.

- **Shriram Transport Finance.** We expect Shriram Transport Finance to report flat earnings qoq. STFC will likely report 4% qoq loan growth (down 1% in 3QFY19) and compression in NIM to 7.5% from 7.8% in 3QFY19 to reflect increase in marginal funding costs. While expenses/AUM ratio remains stable qoq, credit costs will likely fall 15 bps to 2.3%, thus supporting earnings.

Tweaking EV forecasts of Life Insurance companies to reflect decent APE trends.

Exhibit 35: Change in estimates for select life insurance companies
March fiscal year-ends, 2HFY19E/4QFY19E (Rs bn)

	HDFC Life (4QFY19E)			ICICI Prudential Life (2HFY19E)			Max Life (2HFY19E)			SBI Life (2HFY19E)		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Opening EV	174	174	-	192	192	-	78	78	-	199	199	-
VNB	5	6	(10)	7	7	4	5	5	7	12	11	4
Expected return in force	4	4	-	9	9	-	4	4	-	8	8	-
Operating variance	1	1	-	1	2	(34)	0	0	-	3	3	(7)
EVOP	10	11	(6)	18	18	(2)	9	9	4	23	22	1
Non-operating variance and dividend payouts	(2)	(2)	(5)	0.2	(0.3)	(166.7)	(2)	(2)	-	(3)	(3)	-
Closing EV	183	183	(0)	210	210	0	85	85	0	219	219	0
ROEV	20	21	-122 bps	18	18	8 bps	20	19	93 bps	20	19	21 bps
Operating ROEV	24	25	-145 bps	18	19	-44 bps	24	23	93 bps	23	23	21 bps
APE	20	24	(14)	42	40	4	26	24	8	63	61	3
VNB margin	26	25	105 bps	18	18	0 bps	21	21	-16 bps	18	18	15 bps

Source: Companies, Kotak Institutional Equities estimates

Exhibit 36: Key valuation metrics of banks and NBFCs
March fiscal year-ends, 2019E-2020E

	Reco.	Fair Value (Rs)	Price 3-Apr-19	Market cap. US $bn	EPS (Rs) 2019E	EPS (Rs) 2020E	PER (X) 2019E	PER (X) 2020E	ABVPS (Rs) 2019E	ABVPS (Rs) 2020E	APBR (X) 2019E	APBR (X) 2020E	RoE (%) 2019E	RoE (%) 2020E
Public banks														
Bank of Baroda	ADD	145	132	5.1	11	24	12.2	5.6	116	149	1.1	0.9	6.9	15.7
Canara Bank	ADD	315	285	3.1	9	53	30.2	5.4	185	277	1.5	1.0	1.9	10.1
PNB	ADD	105	94	5.2	(18)	11	(5.4)	8.5	51	79	1.8	1.2	(19.5)	10.7
SBI	BUY	410	321	41.8	8	38	42.2	8.5	167	221	1.9	1.5	3.1	13.9
Union Bank	ADD	105	95	1.6	(6)	8	(15.8)	12.6	73	98	1.3	1.0	(4.2)	4.8
Old private banks														
City Union Bank	ADD	215	199	2.1	10	11	20.8	19.0	60	68	3.3	2.9	15.8	15.3
DCB Bank	BUY	220	199	0.9	10	13	19.4	15.7	87	97	2.3	2.0	11.7	13.0
Federal Bank	BUY	115	95	2.8	6	8	15.6	11.4	60	66	1.6	1.4	9.5	12.0
Karur Vysya Bank	ADD	85	74	0.9	2	4	35.1	17.8	65	73	1.1	1.0	2.4	4.6
J&K Bank	BUY	90	58	0.5	7	10	8.2	6.1	80	94	0.7	0.6	6.2	8.0
New private banks														
Axis Bank	REDUCE	720	762	28.6	18	46	41.8	16.5	241	282	3.2	2.7	7.1	16.1
IndusInd Bank	ADD	1,800	1,774	15.6	59	79	30.1	22.4	434	532	4.1	3.3	14.4	17.2
HDFC Bank	ADD	2,350	2,293	91.3	77	93	29.6	24.5	532	602	4.3	3.8	16.6	16.2
ICICI Bank	BUY	450	392	36.9	8	27	48.1	14.7	150	176	2.6	2.2	4.9	14.9
ICICI standalone		-	264	24.9	6	24	45.3	11.2	137	162	1.9	1.6	4.0	14.3
RBL Bank	SELL	550	663	4.1	21	29	31.8	23.2	171	192	3.9	3.5	12.4	15.2
Yes Bank	SELL	210	274	9.3	18	17	15.6	15.9	116	132	2.4	2.1	14.7	12.9
Small finance banks														
Equitas	BUY	180	136	0.7	6	10	20.9	13.6	70	80	1.9	1.7	9.2	12.7
Ujjivan	ADD	375	330	0.6	16	23	21.2	14.4	158	178	2.1	1.9	10.2	13.5
NBFCs														
Bajaj Finance	REDUCE	2,200	3,046	25.7	67	90	45.6	33.9	335	414	9.1	7.4	21.9	24.0
Bajaj Finserv	ADD	6,500	7,402	17.2	242	307	30.6	24.1	1,536	1,829	4.8	4.0	17.5	18.3
Cholamandalam	ADD	1,525	1,463	3.3	76	90	19.2	16.2	372	458	3.9	3.2	21.3	21.0
Bharat Financial Inclusion	NA	-	1,124	2.3	21	33	53.5	34.4	282	356	4.0	3.2	25.3	21.3
HDFC	ADD	2,125	2,013	50.6	56	60	35.8	33.4	438	473	4.6	4.3	13.9	13.2
HDFC core			998	25.1	44	48	22.8	21.0	310	346	3.2	2.9	13.9	14.9
IIFL Holdings	REDUCE	410	450	2.1	26	28	17.3	15.8	178	200	2.5	2.3	15.6	15.1
LIC Hsg Fin	ADD	590	543	4.0	46	54	11.9	10.1	313	356	1.7	1.5	16.2	16.0
L&T Finance Holdings	ADD	145	152	4.4	12	13	13.0	11.7	68	78	2.2	1.9	17.7	17.7
Mahindra Finance	ADD	475	417	3.8	22	27	19.0	15.5	160	175	2.6	2.4	13.6	14.9
Muthoot Finance	REDUCE	600	610	3.6	48	45	12.7	13.5	229	262	2.7	2.3	22.6	18.3
PNB Housing Finance	REDUCE	950	918	2.2	62	70	14.8	13.2	422	474	2.2	1.9	15.1	14.8
Shriram City Union Finance	ADD	1,950	1,795	1.7	146	158	12.3	11.4	898	1,017	2.0	1.8	16.2	15.4
Shriram Transport	BUY	1,475	1,198	4.0	108	127	11.1	9.4	652	755	1.8	1.6	16.8	17.1

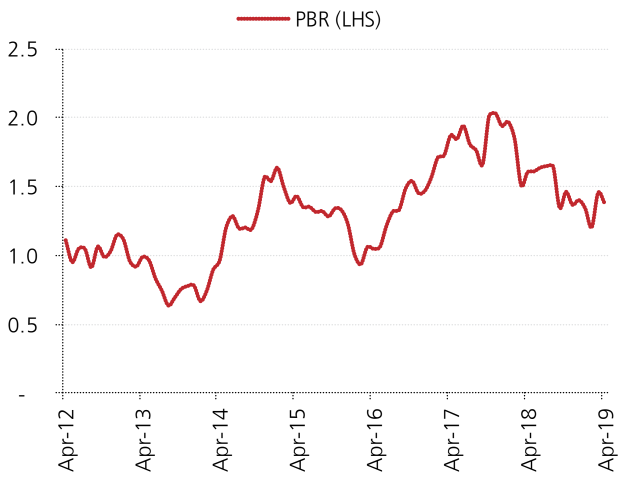
Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 37: BFSI stocks have seen a strong rally in the last 1 month
Stock price performance—absolute and relative (%)

	Change in price (%)					Relative performance to BSE-30 Index (%)					52 week high	52 week low
	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd	(Rs)	(Rs)
Public banks												
Bank of Baroda	22.2	10.7	27.8	(9.2)	11.2	13.3	1.1	18.3	(22.0)	3.1	158	91
Canara Bank	17.6	3.2	23.0	6.1	3.7	9.1	(5.7)	13.8	(9.0)	(3.8)	302	205
Indian Bank	19.6	11.8	8.9	(10.7)	12.7	10.9	2.1	0.8	(23.4)	4.5	380	200
PNB	23.2	21.3	46.1	(1.0)	20.9	14.3	10.8	35.2	(15.1)	12.2	107	58
SBI	17.4	10.1	18.0	27.9	8.3	8.9	0.6	9.2	9.8	0.5	340	232
Union Bank	22.9	6.8	38.3	(2.2)	10.4	14.0	(2.4)	28.0	(16.1)	2.4	106	61
Old private banks												
City Union Bank	6.0	3.4	18.2	23.2	2.2	(1.6)	(5.5)	9.4	5.7	(5.2)	208	155
DCB	8.9	18.3	33.5	18.4	17.8	1.0	8.1	23.6	1.6	9.3	209	140
Federal Bank	11.1	3.5	35.6	4.0	2.1	3.0	(5.5)	25.5	(10.7)	(5.3)	105	67
Karur Vysya Bank	6.7	(19.5)	(7.8)	(22.6)	(17.3)	(1.0)	(26.5)	(14.7)	(33.6)	(23.3)	101	63
J&K Bank	48.1	49.6	37.5	0.2	53.6	37.4	36.7	27.3	(14.0)	42.5	63	35
New private banks												
Axis Bank	8.4	25.3	33.1	51.8	22.8	0.6	14.4	23.1	30.3	14.0	789	478
IndusInd Bank	17.1	13.7	8.2	(3.1)	10.9	8.7	3.8	0.2	(16.8)	2.9	2,038	1,333
HDFC Bank	10.2	8.7	13.0	19.8	8.2	2.2	(0.7)	4.6	2.8	0.4	2,332	1,860
ICICI Bank	10.7	7.9	29.1	45.2	8.9	2.7	(1.4)	19.5	24.6	1.0	410	257
Yes Bank	15.2	48.7	28.7	(12.6)	50.6	6.9	35.8	19.1	(25.0)	39.7	404	147
Small finance banks												
Equitas	16.7	10.2	16.4	(8.9)	8.3	8.3	0.7	7.7	(21.8)	0.5	174	78
Ujjivan	15.2	15.7	29.5	(9.0)	19.1	6.9	5.7	19.8	(21.9)	10.5	435	167
Non-banks												
Bajaj Finserv	14.8	15.8	28.5	37.4	14.1	6.5	5.8	18.9	17.9	5.9	7,450	4,955
Cholamandalam	15.3	21.9	22.1	(3.5)	16.2	7.0	11.4	13.0	(17.2)	7.8	1,761	1,038
Dewan housing	14.9	(37.2)	(53.4)	(72.3)	(40.6)	6.6	(42.6)	(56.9)	(76.2)	(44.9)	692	97
HDFC	8.3	3.9	12.0	10.3	2.3	0.4	(5.1)	3.6	(5.4)	(5.1)	2,053	1,645
IDFC	13.3	7.6	11.9	(12.2)	4.4	5.1	(1.7)	3.6	(24.7)	(3.2)	61	32
IIFL Holdings	30.0	(11.5)	(8.3)	(37.2)	(11.0)	20.6	(19.2)	(15.2)	(46.1)	(17.4)	810	297
LIC Housing Finance	14.4	15.4	31.7	(2.0)	11.1	6.1	5.4	21.9	(15.9)	3.0	584	388
L&T Finance Holdings	18.8	4.6	18.7	(6.5)	(0.3)	(0.9)	(17.2)	(35.1)	(62.2)	(21.5)	190	111
Magma Fincorp	8.4	11.6	1.1	(25.6)	9.7	0.5	1.9	(6.4)	(36.1)	1.8	194	81
MMFS	1.5	(8.9)	2.8	(11.9)	(11.9)	(5.9)	(16.8)	(4.9)	(24.4)	(18.2)	538	343
Muthoot Finance	14.8	22.9	49.7	46.2	18.1	6.5	12.3	38.5	25.5	9.6	632	356
PFC	5.6	13.1	50.2	36.4	11.6	5.6	13.1	50.2	36.4	11.6	124	68
REC	9.7	24.1	43.1	17.9	23.3	1.7	13.4	32.4	1.2	14.4	160	89
Shriram City Union Finance	9.0	12.8	9.4	(19.3)	12.9	1.1	3.1	1.2	(30.7)	4.7	2,454	1,470
Shriram Transport	3.4	4.1	11.3	(19.0)	(3.2)	(4.0)	(4.9)	3.0	(30.4)	(10.2)	1,671	902

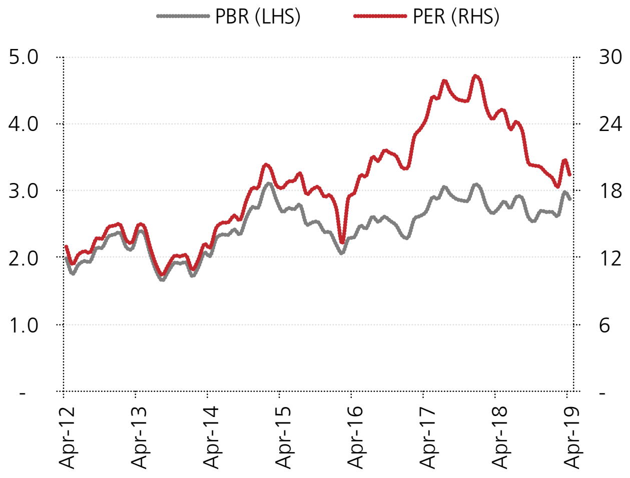
Source: Bloomberg

Exhibit 38: Public banks are trading at ~1.4X book (adj.)
Public banks – one-year forward PBR, March 2012- March 2019 (X)



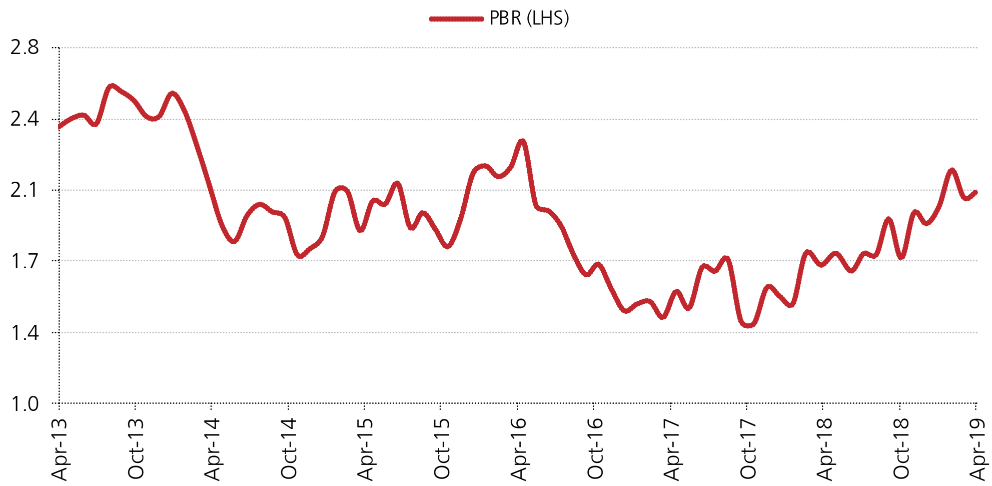
Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 39: Private banks are trading at 2.9X book (adj.)
Private banks – one-year forward PBR and PER, March 2012- March 2019 (X)



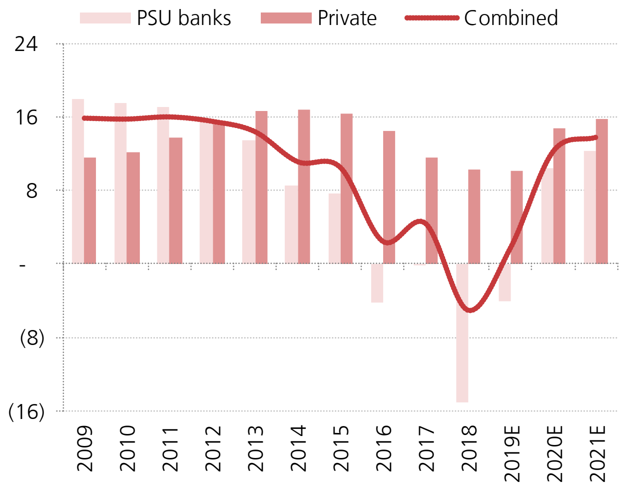
Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 40: Private banks' premium versus public banks continues to rise
PBR (adj.) of private banks relative to public banks, March 2012- March 2019 (X)



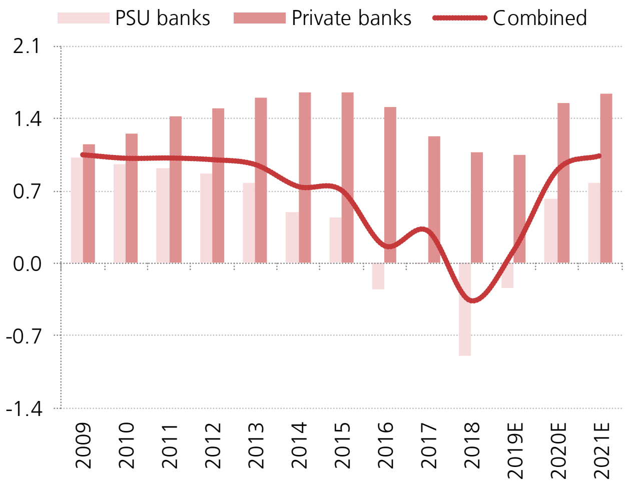
Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 41: RoE likely to show improvement going ahead
RoE-public and private banks, March fiscal year-ends, 2009-2021E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 42: RoA to turn positive in FY2019E
RoA-public and private banks, March fiscal year-ends, 2009-2021E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 43: Quarterly result expectation for companies under coverage

	Mar-18	Dec-18	Mar-19E	Change (%) yoy	Change (%) qoq	Comments
Banks/Diversified financials						
Axis Bank						
Net interest income	47,305	56,037	58,745	24.2	4.8	We expect loan growth at 14% yoy with greater focus on retail. NIM at 3.5% (unchanged qoq but there is a positive bias as pricing environment has been favorable for banks).
Pre-provision profit	36,722	55,247	48,023	30.8	(13.1)	
Fee income	24,480	26,150	27,341	11.7	4.6	
Treasury income (net)	3,230	7,000	820	(74.6)	(88.3)	
Loan-loss provisions	77,320	33,520	19,445	(74.9)	(42.0)	We expect slippages of Rs24 bn (2% of loans) mostly from "below investment grade book". Expect more traction on recovery as well from write-off pool. No major concerns on asset quality.
Adjusted PAT	(21,887)	16,809	15,881	NM	(5.5)	
EPS (Rs/share)	(9.3)	7.1	6.7	NM	(5.5)	
Bajaj Finance						
Net interest income	23,624	32,092	32,167	36.2	0.2	In line with seasonal trends, we expect loan growth to moderate to 7% qoq from 10% qoq in 3QFY19.
Pre-provision profit	13,731	20,894	20,802	51.5	(0.4)	
Loan-loss provisions	2,739	4,538	4,862	77.5	7.1	NIM will likely moderate to 11.1%, down from 12% in 3QFY19, due to lower share of the high-margin consumer business, in line with seasonal trends.
Adjusted PAT	7,210	10,596	10,263	42.4	(3.1)	
EPS (Rs/share)	13.2	19.4	18.8	42.4	(3.1)	
Bank of Baroda						
Net interest income	40,023	47,432	49,294	23.2	3.9	We expect 23% yoy NII growth on the back of 12-13% yoy in loan growth. NIM unchanged qoq at 2.7%. Treasury gains to be lower qoq.
Pre-provision profit	26,655	35,385	34,913	31.0	(1.3)	
Fee income	9,850	8,360	8,758	(11.1)	4.8	
Treasury income (net)	(1,620)	10,430	(2,910)	NM	(127.9)	
Loan-loss provisions	70,525	34,160	11,217	(84.1)	(67.2)	We expect fresh slippages at <2% as there are no major accounts pending (most of IL&FS subsidiaries reported in 3Q). Coverage ratio to improve qoq. Progress of the merger would be discussed.
Adjusted PAT	(31,023)	4,712	14,559	NM	208.9	
EPS (Rs/share)	(58.5)	8.9	27.5	NM	208.9	
Canara Bank						
Net interest income	29,876	38,138	33,421	11.9	(12.4)	We expect 13% yoy loan growth but ~20 bps qoq decline in NIM (one-off) to 2.4% leading to PPoP growth of 32% yoy. Operating expenses growth should not have any negative surprises.
Pre-provision profit	17,647	23,572	23,283	31.9	(1.2)	
Fee income	2,430	2,200	3,358	38.2	52.6	
Treasury income (net)	(5,750)	7,950	(110)	NM	(101.4)	
Loan-loss provisions	84,330	27,327	18,372	(78.2)	(32.8)	We expect slippages of ~4% of loans and mostly from non-corporate loans but NPL decline would be slower as there were no major resolutions during the quarter. Coverage ratio to improve qoq.
Adjusted PAT	(48,598)	3,175	(2,073)	NM	(165.3)	
EPS (Rs/share)	(66.3)	4.3	(2.8)	NM	(165.3)	
Cholamandalam						
Net interest income	8,915	8,750	8,978	0.7	2.6	5% qoq loan growth (moderation from 7% in 2QFY19) and 20 bps qoq NIM compression to 6.9% will drive 3% qoq growth in NII.
Pre-provision profit	5,125	5,592	5,656	10.4	1.1	
Loan-loss provisions	737	950	1,110	50.7	16.8	
Adjusted PAT	2,911	3,051	2,991	2.8	(2.0)	Gross stage-3 loans will decline qoq in line with seasonal trends. Operating expenses will remain stable qoq at 2.6% of assets.
EPS (Rs/share)	18.8	19.5	19.1	1.8	(1.7)	
City Union Bank						
Net interest income	3,679	4,181	4,290	16.6	2.6	We expect loan growth trends unchanged at ~17% yoy for the quarter. NII growth to be marginally lower than loan growth at 15% yoy. NIM unchanged qoq at 4.4%.
Pre-provision profit	2,943	3,069	3,244	10.2	5.7	
Fee income	680	712	719	5.8	1.0	
Treasury income (net)	154	208	231	50.5	11.1	We expect gross NPLs at <3%; slippages are expected at 2% of loans, mostly from small ticket loans.
Loan-loss provisions	550	730	601	9.3	(17.6)	
Adjusted PAT	1,521	1,781	1,795	18.0	0.8	
EPS (Rs/share)	2.3	2.4	2.5	7.2	0.8	
DCB Bank						
Net interest income	2,637	2,936	2,936	11.3	0.0	We expect revenue growth at 13% on the back of 16% yoy NII growth and 23% yoy loan growth. NIM unchanged qoq but there is some easing of pressure (portfolio level) on product segments which compete with NBFCs. Cost of deposits been on the rise. Performance in LAP would be the key monitorable given intense competition and pricing pressure
Pre-provision profit	1,416	1,738	1,738	22.7	0.0	
Fee income	770	776	770	0.1	(0.7)	
Treasury income (net)	42	112	48	14.0	(57.2)	
Loan-loss provisions	349	425	349	(0.1)	(17.9)	We expect slow PAT growth at 35% yoy partly on operating leverage. RoE progression for 4QFY19 and commentary for FY2020 would be the key monitorable.
Adjusted PAT	642	861	861	34.1	0.0	
EPS (Rs/share)	2.1	2.7	2.7	31.6	0.0	
Equitas Holdings						
Net interest income	2,485	3,203	3,563	43.4	11.3	We expect AUM growth of ~40% yoy (similar to 3QFY19). NIM unchanged qoq at 9%. Operating expenses is likely to be flat yoy resulting in an improvement in cost-income ratio to ~60% from 75% in 4QFY18.
Pre-provision profit	675	1,225	1,636	142.4	33.6	
Loan-loss provisions	138	243	438	217.1	80.4	We expect impairment ratios to show further improvement with gross NPLs <3% on the back of loans growth and normalised slippages trends. Commentary on the listing would be a key monitorable.
Adjusted PAT	350	625	731	109.2	16.9	
EPS (Rs/share)	1.0	1.8	2.1	109.2	17.2	
Federal Bank						
Net interest income	9,332	10,773	11,268	20.7	4.6	We expect loan growth to be solid at 24% yoy (trends similar to the previous two years) aided by strong momentum in the retail business and SME business. NIM to show marginal improvement qoq to 3.2%
Pre-provision profit	5,886	7,078	6,988	18.7	(1.3)	
Treasury income (net)	(865)	900	(50)	NM	(105.6)	
Loan-loss provisions	2,630	2,200	1,954	(25.7)	(11.2)	We expect slippages at 2% of loans though we await to see if there is further stress from Kerala floods. RoA progression closer to 1% by 4QFY19 would be a key monitorable.
Adjusted PAT	1,450	3,336	3,407	135.0	2.1	
EPS (Rs/share)	1.5	3.4	3.4	132.6	1.9	

Source: Company, Kotak Institutional Equities

Quarterly result expectation for companies under coverage

				Change (%)		
	Mar-18	Dec-18	Mar-19E	yoy	qoq	Comments
HDFC						
Net interest income	30,641	28,711	28,809	(6.0)	0.3	We expect retail loan growth to increase to 5% qoq from 3% in 3QFY19; wholesale loan book will likely remain flat qoq.
Pre-provision profit	36,972	29,848	38,535	4.2	29.1	
Adjusted PAT	28,462	21,138	27,393	(3.8)	29.6	Rise in incremental funding cost will likely lead to 10 bps NIM compression qoq. Large capital gains from stake sale in Gruh Finance and dividend income from subsidiares will drive qoq growth in earnings.
EPS (Rs/share)	17.0	12.3	16.0	(5.8)	30.1	
HDFC Bank						
Net interest income	106,577	125,768	131,057	23.0	4.2	We expect NII and loan growth similar at ~22% yoy. Growth in unsecured loans to remain high while auto loan growth to witness a slowdown. Fee income growth from MFs to be slower yoy due to changes in regulations.
Pre-provision profit	88,357	107,784	106,897	21.0	(0.8)	
Fee income	33,297	36,468	37,447	12.5	2.7	
Treasury income (net)	(220)	4,740	920	NM	(80.6)	
Loan-loss provisions	12,859	20,570	23,895	85.8	16.2	We expect gross NPL ratio (1.5% of loans) unchanged qoq. Growth in credit costs, especially from rural loans, would be a key monitorable.
Adjusted PAT	47,993	55,859	57,846	20.5	3.6	
EPS (Rs/share)	18.5	20.5	21.4	15.5	4.0	
ICICI Bank						
Net interest income	60,217	68,753	72,029	19.6	4.8	We expect core earnings (base quarter had listing gains of ICICI Securities) trajectory to remain strong led by recovery in loan growth (~15% yoy) and better NII growth (20% yoy) and decline in credit costs. Slippages to be sharply lower at ~<2% of loans. NIM unchanged qoq at 3.4%.
Pre-provision profit	75,140	61,464	63,524	(15.5)	3.4	
Fee income	27,550	30,620	32,040	16.3	4.6	
Treasury income (net)	26,850	4,790	2,900	(89.2)	(39.5)	
Loan-loss provisions	66,258	42,442	23,526	(64.5)	(44.6)	We expect reduction in gross NPLs on the back of resolution as well as write-offs. Watchlist to decline qoq and coverage ratio to improve qoq.
Adjusted PAT	10,200	16,049	28,517	179.6	77.7	
ICICI Lombard						
Net earned premium	18,166	21,110	21,629	19.1	2.5	Net earned premium growth will be strong at 19% yoy vs 21% in 9MFY19 on the back of robust 25% yoy growth in the first two months of the quarter.
Underwriting profit/loss	(96)	(286)	(423)	NM	NM	
Adjusted PAT	2,119	2,391	2,725	28.6	13.9	We build in operating expenses (including commission ratio) to inch further to 26% from 24% in 3QFY19 and 21% in 2QFY19; this will increase combined ratio.
Combined ratio (%)	99	96	102			
IIFL Holdings						
Net sales	17,636	18,220	18,583	5.4	2.0	We expect loan book to remain flat qoq; NIM will likely compress 30 bps reflecting higher funding costs.
Adjusted PAT	2,483	1,684	1,625	(34.5)	(3.5)	
EPS (Rs/share)	7.8	5.3	5.1	(34.5)	(3.5)	Broking income will likely increase 15% yoy, in line with growth in cash market volumes on BSE and NSE. Wealth management income will likely bounce back 30% qoq on a subdued base.
IndusInd Bank						
Net interest income	20,076	22,881	23,633	17.7	3.3	We expect loan growth at ~25% yoy with key products to monitor would be on vehicle financing and MFI portfolio. Revenue growth would be slower as pressure on NIM (yoy) would be quite high. We expect slower fee income growth due to change in fee structure on wealth management products.
Pre-provision profit	17,694	21,170	18,231	3.0	(13.9)	
Fee income	11,135	12,660	12,175	9.3	(3.8)	
Treasury income (net)	950	2,030	310	(67.4)	(84.7)	
Loan-loss provisions	2,820	5,610	10,434	270.0	86.0	We expect the bank to make high provisions for their IL&FS exposure which has been impaired. We are building an additional provision of Rs7 bn this quarter.
Adjusted PAT	9,531	9,850	5,995	(37.1)	(39.1)	
EPS (Rs/share)	15.9	16.4	10.0	(37.1)	(39.0)	
J&K Bank						
Net interest income	6,558	8,816	8,969	36.8	1.7	Loan growth within J&K will be a healthy and overall loan growth will be ahead of industry trends at ~18% yoy. NIM unchanged qoq at 3.9%.
Pre-provision profit	2,665	4,249	4,445	66.8	4.6	
Fee income	485	488	494	2.0	1.2	
Treasury income (net)	(503)	(62)	(38)	NM	NM	
Loan-loss provisions	3,353	2,386	2,651	(20.9)	11.1	We expect fresh impairment ratios to decline sharply as the bulk of the IL&FS exposure was reported as gross NPLs in 3Q. Movement of the restructured loan (6% of loans) but would be another key monitorable as we continue to expect decline in this ratio.
Adjusted PAT	284	1,038	884	211.3	(14.8)	
EPS (Rs/share)	0.5	1.9	1.6	211.3	(14.8)	
Karur Vysya Bank						
Net interest income	6,429	5,808	5,948	(7.5)	2.4	We expect sharp drop in earnings on the back of higher provisions for bad loans and slower revenue growth. Loan growth to remain sluggish at 3% yoy.
Pre-provision profit	4,797	4,250	4,355	(9.2)	2.5	
Fee income	1,909	1,896	2,239	17.3	18.1	
Treasury income (net)	(250)	580	(270)	NM	(146.6)	
Loan-loss provisions	3,810	4,320	3,569	(6.3)	(17.4)	We expect slippages to be higher qoq at >5% of loans as it is mostly coming from the SME exposure which was guided by the bank in the previous quarter.
Adjusted PAT	506	212	14	(97.1)	(93.2)	
EPS (Rs/share)	4.1	1.7	0.1	(97.1)	(93.2)	
LIC Housing Finance						
Net interest income	10,036	10,843	10,194	1.6	(6.0)	We expect NII to decline 6% qoq due to 20 bps NIM compression to 2.2% reflecting increase in marginal funding cost, even as loan growth will likely be strong at 6% qoq, up from 3% qoq in 3QFY19.
Pre-provision profit	8,669	9,921	9,093	4.9	(8.3)	
Loan-loss provisions	281	1,325	943	235.1	(28.8)	
Adjusted PAT	5,393	5,963	5,726	6.2	(4.0)	Provisions will decline 30% qoq as recoveries typically pick up in 4Q.
EPS (Rs/share)	10.7	11.8	11.3	6.2	(4.0)	
Mahindra & Mahindra Financial						
Net interest income	13,050	12,040	12,328	(5.5)	2.4	We forecast 4% qoq loan growth, down from 6% in 3QFY19, reflecting slowdown in auto sales.
Pre-provision profit	8,261	7,444	7,617	(7.8)	2.3	
Loan-loss provisions	1,572	2,247	1,765	12.2	(21.5)	
Adjusted PAT	4,245	3,186	3,783	(10.9)	18.7	Increase in incremental funding costs will drive 50 bps qoq NIM compression to 8%; strong recoveries will reduce credit cost/AUM ratio by 40 bps to 1.1%.
EPS (Rs/share)	7.5	5.6	6.7	(10.9)	18.7	
Magma Fincorp						
Net interest income	3,645	3,378	3,317	(9.0)	(1.8)	We expect 2% qoq decline in NII on the back of 2% qoq loan growth and 20 bps qoq NIM compression to 7.9% reflecting increase in marginal cost of funding.
Pre-provision profit	1,838	1,721	1,674	(8.9)	(2.7)	
Loan-loss provisions	1,058	525	484	(54.3)	(7.9)	
Adjusted PAT	714	740	848	18.7	14.6	Cost/income ratio will likely remain stable at 50% qoq; strong recoveries will drive 15 bps qoq reduction in credit costs/AUM ratio.
EPS (Rs/share)	3.0	3.1	3.6	18.7	14.6	
Muthoot Finance						
Net interest income	10,728	10,939	11,307	5.4	3.4	We expect qoq loan growth to bounce back to 4% (1% qoq in 3QFY19 and 4% in 2QFY19).
Pre-provision profit	7,920	7,843	7,530	(4.9)	(4.0)	
Loan-loss provisions	596	19	204	(65.8)	973.2	
Adjusted PAT	4,514	4,852	4,541	0.6	(6.4)	NIM will likely inch up 20 bps to 13.7%; operating expenses/AUM ratio will likely increase 50 bps qoq to 4.8% reflecting investments in growth.
EPS (Rs/share)	11.3	12.1	11.4	0.6	(6.4)	

Source: Company, Kotak Institutional Equities

Quarterly result expectation of companies under coverage

	Mar-18	Dec-18	Mar-19E	Change (%)		Comments
				yoy	qoq	
PNB Housing Finance						
Net interest income	4,516	3,538	3,560	(21.2)	0.6	We expect PNBHF to deliver 7% qoq growth in 4QFY19 (37% yoy) versus 9% qoq growth in 3QFY19.
Pre-provision profit	3,865	3,586	3,777	(2.3)	5.3	
Loan-loss provisions	444	701	722	62.5	3.0	We build in 10 bps qoq NIM compression to 1.95% to reflect increase in incremental funding costs; expenses-to-assets ratio will likely remain stable qoq.
Tax	1,231	1,386	1,011	(17.8)	(27.0)	
Adjusted PAT	2,190	1,499	2,043	(6.7)	36.3	
EPS (Rs/share)	13.2	9.0	12.3	(6.7)	36.3	
Punjab National Bank						
Net interest income	30,634	42,901	44,698	45.9	4.2	We expect losses to be higher consequent to the recent capital infusion which allows them to improve coverage. Gross NPLs to decline on the back of higher recoveries from NCLT cases as well as write-offs due to ageing of NPLs.
Pre-provision profit	(4,474)	30,999	47,822	NM	54.3	
Fee income	9,060	9,050	9,540	5.3	5.4	
Treasury income (net)	(4,100)	9,090	19,050	NM	109.6	
Loan-loss provisions	144,100	25,658	87,155	(39.5)	239.7	We expect strong growth in treasury income as they have sold a part of their stake in PNB Housing Finance. We expect loans to decline yoy but NIM unchanged qoq at 2.4%.
Adjusted PAT	(134,169)	2,465	(27,002)	NM	(1,195.4)	
EPS (Rs/share)	(48.6)	0.6	(6.0)	NM	(1,022.6)	
RBL Bank						
Net interest income	5,005	6,551	6,938	38.6	5.9	We expect solid NII growth (~40% yoy) on the back of healthy loan growth (33% yoy) driven by robust traction cards and MFI business.
Pre-provision profit	3,831	4,985	5,190	35.5	4.1	
Treasury income (net)	420	277	72	(82.8)	(73.8)	
Loan-loss provisions	740	1,500	1,196	61.6	(20.3)	We expect high operating expense growth (~35% yoy) due to the cards business. RoE progression to ~14% for 4QFY19 and the commentary on FY2020 RoE would be a key monitorable.
Adjusted PAT	1,781	2,252	2,542	42.7	12.9	
EPS (Rs/share)	4.7	6.0	6.8	42.7	12.9	
Shriram City Union Finance						
Net interest income	8,118	9,100	9,609	18.4	5.6	Improving liquidity and access to bank loans will support 6% qoq loan growth (3% qoq decline in 3QFY19) and 50 bps qoq NIM expansion to 12.9%.
Loan-loss provisions	4,122	1,340	2,252	(45.4)	68.0	
Adjusted PAT	471	2,590	2,233	374.6	(13.8)	We expect cost/income to remain stable at 40%.
EPS (Rs/share)	7.1	39.3	33.9	374.6	(13.8)	
Shriram Transport						
Net interest income	18,076	20,337	19,799	9.5	(2.6)	We expect loan growth to pick up to 4% qoq from 1% qoq decline in 3QFY19 as the liquidity environment has improved; however, rise in marginal funding costs will put pressure on NIM.
Pre-provision profit	15,599	16,202	15,747	0.9	(2.8)	
Loan-loss provisions	13,666	6,362	6,112	(55.3)	(3.9)	
Adjusted PAT	1,446	6,355	6,323	337.3	(0.5)	We expect credit costs to fall 15 bps qoq to 2.3%.
EPS (Rs/share)	6.4	28.0	27.9	337.3	(0.5)	
State Bank of India						
Net interest income	199,743	226,910	236,544	18.4	4.2	We expect loan growth at ~12% yoy and NIM unchanged qoq at ~2.8%. Non-interest income growth to remain muted due to lower fee income growth but partly offset by higher income from written-off loans.
Pre-provision profit	158,829	126,250	179,689	13.1	42.3	
Fee income	84,300	47,240	71,320	(15.4)	51.0	
Treasury income (net)	(38,200)	84,190	(1,360)	NM	(101.6)	
Loan-loss provisions	240,801	139,710	80,525	(66.6)	(42.4)	Slippages to decline to <2.5% as recognition is complete while gross NPLs could decline with resolution/NPL sales to ARCs. Provisions would be high due to ageing of NPLs (provision to steel exposure is at 50%).
Adjusted PAT	(77,185)	39,548	67,594	NM	70.9	
EPS (Rs/share)	(8.6)	4.4	7.6	NM	70.9	
Ujjivan Financial Services						
Net interest income	2,109	2,550	2,801	32.8	9.8	We expect Ujjivan to report strong PAT growth on a low base. AUM growth is expected to be ~25% yoy driven by strong performance in MFI, housing space and SME financing.
Loan-loss provisions	347	70	161	(53.5)	130.4	
Adjusted PAT	648	452	535	(17.4)	18.4	
EPS (Rs/share)	5.4	3.8	4.5	(17.4)	18.4	Cost ratios are expected to be high as transition to a bank continues. Await to see the investments that the bank is likely to make in 1QFY19/FY2019 on infrastructure expansion.
Union Bank						
Net interest income	21,931	24,942	25,902	18.1	3.9	We expect NII growth at 6% yoy driven by 4% yoy loan growth. We expect NIM to improve 10 bps qoq to 2.3%.
Pre-provision profit	7,694	23,014	16,565	115.3	(28.0)	
Fee income	11,270	6,600	6,008	(46.7)	(9.0)	
Treasury income (net)	(9,880)	6,610	(139)	NM	(102.1)	
Loan-loss provisions	54,560	21,390	29,947	(45.1)	40.0	We expect slippages to fall to <3% of loans but recoveries would be higher on the back of resolution and write-off. GNPL to decline qoq.
Adjusted PAT	(25,834)	1,532	(14,377)	NM	(1,038.4)	
EPS (Rs/share)	(22.1)	1.3	(8.5)	NM	(748.8)	
YES Bank						
Net interest income	21,542	26,664	25,590	18.8	(4.0)	We expect loan growth to decelerate to ~15% from ~40% (base effect as well as the bank is in a stage of transition). Revenue pressure to remain high due to weak fee income growth (sharp decline) and NIM pressure (higher funding costs).
Pre-provision profit	21,354	19,904	19,374	(9.3)	(2.7)	
Fee income	13,265	9,500	9,357	(29.5)	(1.5)	
Treasury income (net)	945	(592)	572	(39.5)	NM	
Loan-loss provisions	2,946	7,913	5,790	96.5	(26.8)	Asset quality ratios could see marginal deterioration (lumpy corporate exposure) though divergence was NIL. Commentary from the new MD&CEO would be crucial to understand his views of the bank and steps taken to change its business model.
Adjusted PAT	11,794	10,019	8,532	(27.7)	(14.8)	
EPS (Rs/share)	25.8	21.9	18.7	(27.7)	(14.8)	

Note :
(1) December 2018 results and March 2019 forecasts for NBFCs are as per Ind-AS while March 2019 results are as per IGAAP; as such our 4QFY19E estimates for NBFCs are not comparable yoy.

Source: Company, Kotak Institutional Equities estimates

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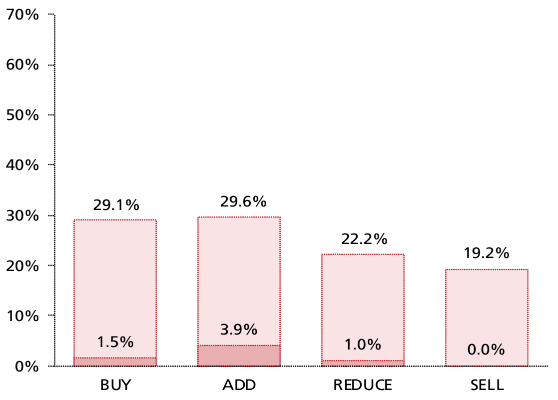

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Source: Kotak Institutional Equities As of December 31, 2018

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