

December 15, 2019

## Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	1,640		1,640	
NII (Rs. m)	144,464	169,164	144,464	169,164
% Chng.	-	-	-	-
Op. Profit (Rs. m)	126,743	146,715	126,743	146,715
% Chng.	-	-	-	-
EPS (Rs.)	108.7	128.9	108.7	128.9
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
NII (Rs m)	103,970	122,964	144,464	169,164
Op. Profit (Rs m)	93,050	108,864	126,743	146,715
PAT (Rs m)	40,540	60,479	75,316	89,400
EPS (Rs.)	62.7	87.4	108.7	128.9
Gr. (%)	4.2	39.2	24.4	18.6
DPS (Rs.)	6.5	10.0	12.5	15.0
Yield (%)	0.4	0.7	0.8	1.0
NIM (%)	4.3	4.2	4.1	3.9
RoAE (%)	14.8	17.9	18.4	18.2
RoAA (%)	1.6	1.9	2.0	2.0
P/BV (x)	3.4	2.8	2.3	2.0
P/ABV (x)	3.6	3.0	2.4	2.1
PE (x)	23.7	17.0	13.7	11.5
CAR (%)	15.8	17.1	17.5	17.3

### Key Data

### INBK.BO | IIB IN

52-W High / Low	Rs.1,835 / Rs.1,188
Sensex / Nifty	41,010 / 12,087
Market Cap	Rs.1,029bn / \$ 14,541m
Shares Outstanding	693m
3M Avg. Daily Value	Rs.14963.3m

### Shareholding Pattern (%)

Promoter's	14.39
Foreign	52.53
Domestic Institution	12.39
Public & Others	20.69
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	5.0	(0.2)	(7.7)
Relative	2.7	(3.3)	(19.2)

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## Channelizing the next growth engines

IndusInd Bank organized a two-day event to showcase its progress in the Bhafin acquisition and also present on the non-corporate parts of the business for the way ahead. (i) On the micro-finance piece, we were struck by strong technology adoption by BHAFIN team especially geo tagging all the sangam managers & meeting centers real time (similar like food delivery apps & restaurants) to assess location, timings of center meeting and improve route efficiencies & KMs travelled of managers. We were also showcased about the data analytics used from BMS Kirana stores collections – these initiatives will lead to next phase of scale up for MFI business. (ii) On the consumer loans piece, bank is targeting to double assets & customer base in next three years, granularize liabilities as main priority, increase client acquisition and continue to grow at CAGR of 25%. From the interactions we conclude CVs to bottom in FY20 end while other parts of vehicle are doing well, strong build-up in consumer lending to take place which could lower mix of corporate banking, liabilities franchise will see gradual scale up and Bhafin acquisition benefit on other parts of business especially liabilities will take some time. We retain BUY with TP of Rs1,640 based on 2.5x Sep ABV.

- Building the next phase of MFI and synergize from it:** Bank has taken next step to build-up from the MFI business by opening +13000 Retail Distribution & Service Points (RDSPs) known as Bharat Money stores. High number of stores are currently in Odisha (50%) and Karnataka and planning to roll it to 0.16mn villages in next one year. Key benefits have been (i) 70% non-IIB transactions of withdrawal for other banks and money transfer by simple app based mobile device from the retail kirana store owner account (ii) Opening IIB accounts for non-IIB customers operating as BO (iii) Cash collection for MFI business (iv) delivering non-banking products as cross sell and (v) cross sell banking products to RDSPs like ODs. We believe, it's a long way for IIB as yet to benefit from the Bhafin but we are impressed from the strong technology adoption which will bring in cost efficiencies.
- Consumer Banking – Scale up with granularity:** Bank targets to double consumer (non-vehicle) assets & customer base, highly focus on increasing retail deposits which is 65% for bank and scale up in asset & liabilities from new initiatives in next three years. Bank is yet to solve the question whether it wants to distribute or manufacture products but will continue to build partnerships to acquire customers. Bank believes that there is a balanced requirement of 'Phygital' but have to remain highly innovative. Bank will not take high risks in unsecured lending, keeping it at <5% of loan book growing at 24% CAGR and does not see risks for its own portfolio.
- Vehicle & Commercial Banking – Gradual growth should continue:** Bank explained CVs have face their worst cycle in years in term of growth but is not seeing issues on portfolio for them. Currently, lot of players have vacated segment leading to non-riskier financing book and should see industry bottoming out by FY20 end. On Commercial lending, Bank expects strong avenues of growth with combination of fee avenues and CASA avenues – will build strong loan book in next 3 years.

## Indusind – Bhafin Microfinance Visit

### Field Visit – Humnabad, Karnataka

**160Kms from Hyderabad – Nearest Large Town – Bidar/Gulbarga**

#### Exhibit 1: Field visit to two centers for Bharatfin

#### Our observations

Weekly meetings continue for Bhafin

Average attendance at 75-80% for one center (many centers such attendance)

Many members were insisting to increase loan ticket size

Many members had on average 2 loan products from the pass books accessed by us either IGL or MGL

Both centers were +7 year vintage, while members vintage ranged from 1.5 years – 7 years

Loans taken from other MFI was Grameen Koota (Credit Access) of Rs50,000 by one member

Other MFIs/NBFCs/Banks operating in the region – Credit Access, L&TMFI, HDFC Bank, Fin Care, Spandhana Spoorthy

Two disbursements failed one due to Aadhar & finger print mismatch and other finger authentication did not go through

#### BMS RDSP store – Kirana Store

Livelihood of Rs12,000-15,000/month and earns additional up to Rs2,000-2,500/month being as Banking correspondent

70% of cash utilized for non-IIB customers and acting as ATM & IMPS transfers

Collects cash from borrower and money gets debited from his account & adjusted from borrower's account

Sunday has higher throughput and higher volume of transactions

		Center 1	Center 2
<b>Location</b>	State	Karnataka	Karnataka
	Village Sangam	Allura	Katakchincholi
	Branch	Humnabad	Humnabad
<b>Meetings</b>	Week Day	Every Friday	Every Friday
	Time	10.00AM	11.00AM
	Duration	40 Mins	10-15 Mins
	<b>Center Size</b>		
	Groups in Center	5	6
	Members	25	30
	Present on visit day	21	30
<b>Loan Modalities</b>	Collection Method	Group Leader	Group Leader
	Collection Intermediary	Sangam Manager	Bharat Money Store - RDSP
	Disbursement	Cashless	Cashless
	Collection Mode	Cash	Cashless
	Interest	19.75%	19.75%
	Collection Amount (Rs)	20,762	30,000
	Avg/member EWI (Rs)	830	1,000
	Cash Collected	20,762	2,600
	Processing Fees	1%	1%
	Insurance Fees	1%	1%
<b>Process</b>		Pledge for loans from commission agents & attendance	
		Group leader collects money a day prior of center meeting	
		Group leader submits money, Account update, passbook update	
		Check for new loans and disburse on consent of members	
		Bureau check for eligibility, OTP verification, Aadhar check via biometric and EKYC	
<b>Outcomes</b>		Disburse cashless in bank account; direct delivery if fixed usage loan	
		Member visit of branch if aadhar verification fails to authenticate	
		Meeting ended by asking loan amount, rate of interest	
		Center One - 1 disbursement for IGL of Rs25,000 with instant disbursement; 1 FUL for mixer grinder rejected as Aadhar did not match	
		Center Two - Cash collected in cash less meeting from individuals due to technicalities; 1 loan got rejected as Thumb imprint did not get through	
		420 timeouts on aadhar hence did not get loans; can reach to 1,000	
		1 BMS collects for 2 centers	
		+60,000 loans disbursed	

Source: Company, PL

**Exhibit 2: Details of various loan options and durations**

Loan Type	Income Generating Loan - IGL	Medium Term Loans - MTL	Long Term Loans - LTL	Fixed Usage Loan - FUL (Cross sell)
Loan Duration	50 weeks	75 weeks - Post 20 weeks of IGL	104 weeks	25 weeks
Avg Ticket Size	Rs25,000	Rs20,000	Rs40,000	Rs5,500

Source: Company, PL

**Exhibit 3: Branch portfolio highlights**

Branch	Humnabad, Karnataka
Portfolio	+Rs100.0mn
Client Base	+4000
Active Loans	+3800
Centers Managed	150-160
Sangam Managers Tagged	6
Centers managed by SMs	25
RDSP Tagged	51 Kirana Stores
Portfolio Growth	+2x in last 5 years; 12-13% growth YoY

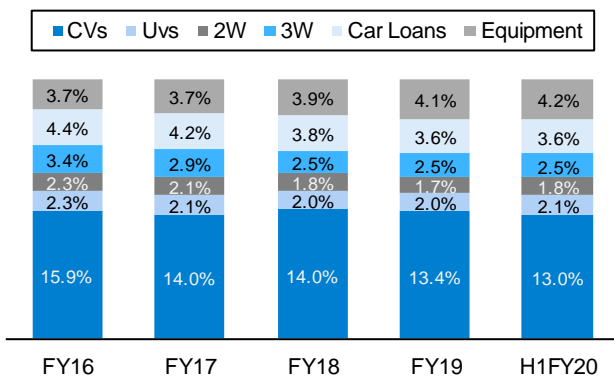
Source: Company, PL

## Commercial Vehicle Loans – Mr. Parthasarthy

- **Automobile industry is going through worst down turn being deepest and longest (+1 year)** which was not even witnessed during GFC in 2008. CVs growth is 50% YoY with 1st half better but started slowing down in 2nd half. Couple of factors of slowdown – (i) Tonnage has increased by 30% from FY17 and relaxation in axle loading norms leading to 0.15mn vehicle not coming for replacement (ii) higher efficiencies like faster passing at toll booths/borders, fuel efficiency and so on has also bought down vehicle replacement by 80k-100k. Mr. Parthasarthy expects by end of FY20 end excess most capacity will be absorbed.
- Vehicle prices has been lowest with no action taken by OEMs, financing cost for vehicles across has come down and fuel prices are volatile with steady freights.
- As of date, 100% vehicle is financeable without having much risks as tail ender lender (non-serious players) are either very marginal or have vacated the market with very serious players remaining. Three banks have gained market share but overall industry has fallen hence does not reflect in numbers.
- **Handling stress** - To take him out of 3 months overdue takes 6 months as trips have come down. Will have range of credit cost 70bps +/- 5bps. 85% standing instructions have been passing without any issue. 6% of SIs which were bouncing is now 10% but nothing to worry. Require expertise to assess which portfolios can be allowed to run over dues or portfolio to tighten screws.
- **Vehicle segments performance & outlook**
  - **Used vehicle** - Used vehicle market thrives if new market is good. Currently, has Rs63.8bn of used loan portfolio (11.3% of vehicle portfolio) growing at CAGR of 15% over FY16-Q2FY20.
  - **3Wheeler** – IIB has significant market share which proves good for last mile connectivity and as a portfolio is doing well.
  - **2Wheeler** – Achieved 0.1mn/month of 2W volume in last two months from a run rate of 70k/month volume had done only once last year fiscal year. Market share currently is 3.4% v/s 2.7% last year Q2FY20.
  - **Cars** – IIB is yet a marginal player but caters to niche market in the self-employed segment. **Disbursement is up higher than last year and** both used car & new car is doing well. Yields are higher than CVs and NPAs half of CVs NPA with negligible credit cost.
  - **Tractors** - Portfolio has been doing well with 5-6 years of vintage now. Bank is growing the portfolio by 20% YoY with 7% market share.
  - **Construction equipment** – Portfolio is doing very good as demand has been both from state & central government projects. Even demand has been good from municipalities & talukas for various activities. IIB are in Rs0.5-0.6mn ticket size and only in very limited segments. No 1 financier for JCB.

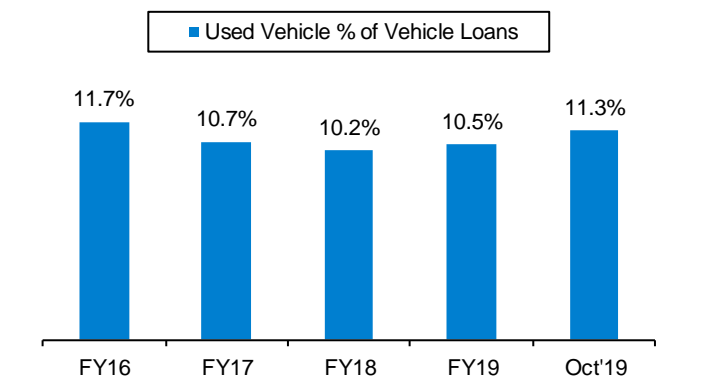
- Sourcing from IIB CASA customer base has been minimal of 15% now (increased from NIL two years back) and fair amount of base to catch up as yet and now start mine this database as well.
- **Portfolio concentration** - Rs100mn and above to single customer is only Rs5.0-6.0bn of portfolio which showcased portfolio is very granular and are mainly SRTOs.
- Co-lending model will be good way forward for CVs and this will be helpful if co-lender player is more in concentrated geography than spread out. Will look out for such partnerships ahead.

**Exhibit 4: Break-up of vehicle loan book – Lowering CVs share**



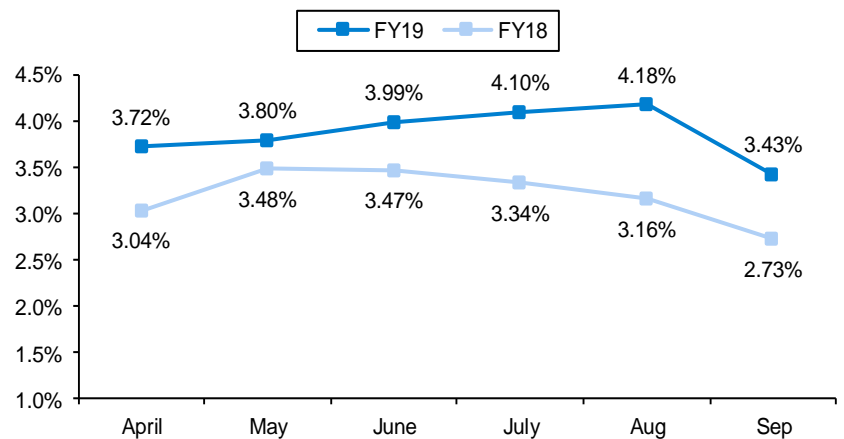
Source: Company, PL

**Exhibit 5: Used vehicle mix has been steady for the bank**



Source: Company, PL

**Exhibit 6: Month wise two wheeler market share – Improved from last year**



Source: Company, PL

## Commercial Banking - Mr. Sanjeev Anand

### Mid Corporate - SME - Supply Chain - Corp Agri - MFI BC

- **SME& Mid-market** – Segment is based on Rs1.5bn-15.0bn turnover. PSBs are coming back in mid-market along with select private banks. IIB present in 16 cities for this business.

Modalities of this segment -

- IIB has portfolio size of Rs180.0bn fund based exposure and Rs110.0 Non-fund based exposure with average of Rs200mn-210mn ticket size spread over 1,600 clients. Has been seeing 6-7% QoQ growth.
  - Fund based book is self-funded and is highly transactional in nature with working capital.
  - Has high fees of 3-3.5% of loan amount with 65% of this fees coming from trade/fx/CMS and rest from processing fees. Average yields are at 9.75-9.8%.
  - Average credit cost for mid-market ranges, was 50-55bps in FY17 which is now 65bps. In Mar'19 sub-investment grade was 9% in non-fund and is down in Sept'19
- **SME - Agri biz - Corp based** - Two years back separated the food and non-food agri segments. Portfolio was Rs40.0bn-50.0bn two years back which was scaled down to Rs45.0bn and is picking up well now with 12-13% growth. 90-95% is collateralized with average ticket size of Rs30-35mn. This is based on food and agri based cash flow based lending with 10.3% yield and 1% in fees.
- **Supply Chain finance biz** - Financing the dealers & vendors of large corporate to Auto & Non-auto (examples - Asian paints & whirlpool). Average ticket size in Auto is Rs40-45mn and in Non-auto it is not more than Rs0.75mn. O/s portfolio was bought down from Rs50.0bn to Rs35.0bn with 45% auto & 55% non-auto share. Non-auto is picking up strong and in next three years aim to build book of Rs2.0trn. Duration is of 90 days for this business, 50% qualifies for PSL and has 10.4% yield.
- **MFI business – RDSP model** – Have opened 2.7mn saving a/c as yet of the 8.5mn borrowers of BHAFIN which shall be opened by FY20 end. RDSP pilot was good and now have opened 13,000 RDSPs. Non-borrowers have been transacting higher being 70% throughput with value of transactions of Rs2.5bn in Q2FY20, Rs3.6bn reached till date in Q3FY20 and should reach Rs5.0bn in Q3FY20 end. Next 2-3 years RDSP will see much more dynamic growth. In MFI having only 4 BC relationships and rest running down.

## Consumer Banking – Mr. Sumant Kathpalia

CASA+Retail TDs at +65% of deposits growing at 24% CAGR, targeting to improve further

Consumer bank branch network is 38% of total network

In last three years SA a/c grew by CAGR of 42%, Loans by 26% and fees by 30%

No. of clients added per month increased from 92k in Q4FY19 to 117k in Q2FY20 and aims to scale up to 200k by FY21 leading to double client base from 5.5mn to 12mn in FY23.

New initiatives fee is growing at much higher CAGR of 38% v/s branch fee growth of 19%. Aiming to continue to grow at 24% CAGR for next three years

**Partnerships fueled biz** – objective to acquire 1mn liability clients and originate 20-25% of business in individual & SME lending

Digitisation has helped risk management with 20-30% lower risk cost in individual unsecured lending

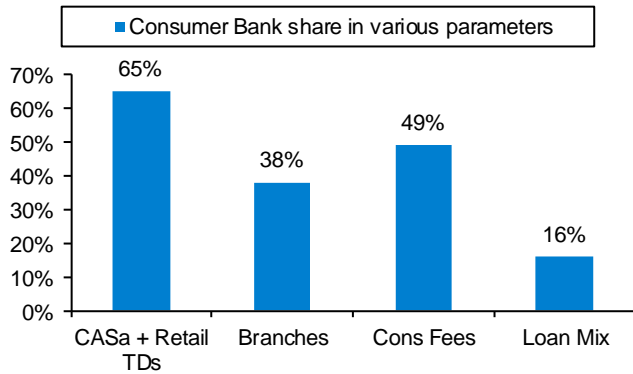
**Way forward** –By FY23 (next PS) reach 12 mn clients, 3000 branches from 2000 currently, double non vehicle assets and increase market share

- Changing the bank towards individual from business owners. **Core belief of consumer bank lies in** - (i) retailization of liabilities (ii) Segmentation drives focus by client & geography - Developed, home market, emerging (iii) Future remains Phygital (trust & delivery) (iv) Creating differentiated client experience (v) Partnerships & alliances (vi) Rural scale up needs low cost mile reach with technology (vii) Time to evaluate - Distributor or Manufacturer - Want to enter para banking - Big in non-life as TW presence, time has come from distributor to manufacturer but waiting for regulatory clarity
- **Liabilities –**
  - **Liability mix** - Currently, Rural is only 2-3% of liabilities which is scaling up, 10% is from affluent segment and mass is 86% with 15% NRI and 35% from SME. On incremental basis Mass market share is 66% with Affluent rising to 20% and 10% from alternate channels (absent earlier) with NRI also improved to 20%. In next 2-3 years, target segment mix of 74% mass, affluent 16%, NRO 18% and Alternate 6%.
  - Last six months' growth of 24% in consumer term deposits. with Rs50.0bn build-up per quarter and increased run rate of 117k/month clients' additions in for Q2
  - NRI Banking was launched but lost way somewhere in between, but now coming back - 80% liabilities in term dep...Property services, taxation and not wealth proposition - 5% market share from 1.5% share - want to big in this biz
  - Two accelerator of CASA ahead one is from NRI being atleast 20% of the pie and 25% from Pioneer on AUM basis as relationship
- **Merchant Banking** - Merchant discount rate is good business with discounting loss of 15-20bps but on average will get Rs250k of float from the proposition and fees as charge of discounting. Rs5.0-6.0bn book gets build instantly with good CA a/c. Looking to build Rs50.0bn of book in next two years with 100k/year merchant acquisition and 25% of retail CA book.
- **Partnership** – Will look at more partnerships. Have tied up with online brokerage which is completely integrated where value proposition is for LAS or LAM. Partnerships will help in acquire 1mn clients per year.
- **BAU banking** - Evaluating under PS-V to reach 3000 branches from 2000 branches, aiming at strong scale up in corporate salary proposition and increase share in home markets
- **Assets -**
  - Consumer book (non-vehicle) is 16% of overall book with gross yield of 12.7% and 100bps credit cost. Currently, Unsecured is 25% of non-vehicle and 4% of overall book. Unsecured stress has inched up higher for 30+ day bucket but not rolling over from 60+ days for IIB.
  - Existing client base contributes 60% of Personal loans, 45% of LAP, 50% of biz banking and 30% of cards.

- **Personal Loans** – Personal loans sourcing to internal customer is lower as Corporate salary book is lower and hence PL is slightly challenging as self-employed customers
- **Cards** - 30% is to internal customer while 40% cards are through DSA which are mainly digital channel like bank baazar, paisa.com. Will increase the salaried base. **Card biz is 7.5% ROA with only 220bps credit cost**
- Slowed down LAP & BBG post de-monetization. LAP was slowed down as industry yields fell down. LAP book is good with credit cost ranging from 25-40bps with cap being at 40bps always. Although, BBG had jumped to 65bps and ahead will operate at 50bps credit cost which now is 30-35bps.
- **Home Loans** - Next 12 months continue to distribute than manufacture
- **Way forward** – Aiming for 2x consumer asset growth in next three years. Principles of scale up on back of **(i)** Unsecured assets to <5% of overall loans **(ii)** Risk cost contained at 100-110bps **(iii)** Cross sell to internal client base both consumer as well as vehicle finance **(iv)** partnership build up and **(v)** leverage data with advances analytics to digitize customer end to end journey and drive scale.
- Some home markets suffered - Patna, Nagpur and Coimbatore - Product suite was opened limited - Cards product was not opened in Patna, Not having right quality of people...hence not got desired results.
- **Digital**
  - Digital journey is about innovation especially in the client journey - the experience is very important - BAU biz are dead and only for trust basis. Had strong 16 innovations like 'my account my number', choice money ATM, alexa banking, duo credit-debit card and so on
  - End to End digital journey for products on digital are for 90% of deposits, 82% investment, 50% forex, 26% credit cards and 47% personal loans.
  - Digital has led to 15-20% productivity improvement and 20-30% lower risk in unsecured lending

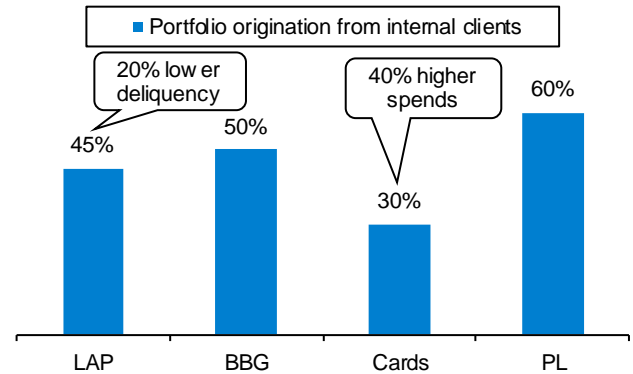


**Exhibit 8: Consumer bank is yet to scale up for the bank**



Source: Company, PL

**Exhibit 9: Internal customer score better but yet to mine**



Source: Company, PL

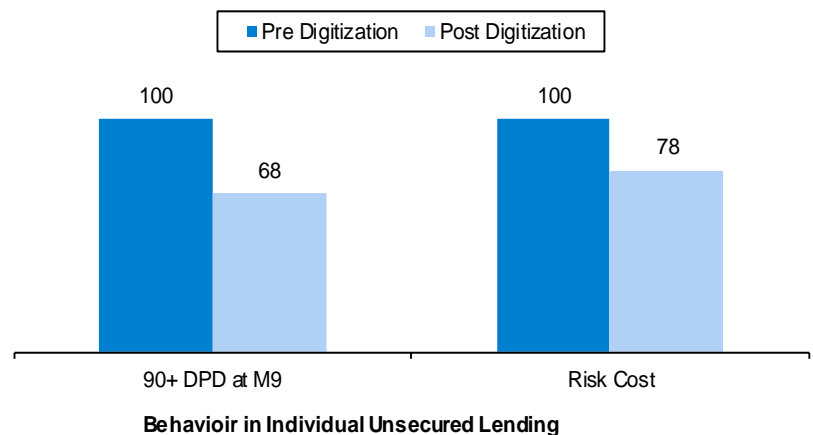
**Exhibit 10: Bank has taken up new initiatives to scale up liabilities business for the bank**

### Key New Initiatives to fuel growth in Liabilities Business

<b>Affluent Banking</b>	<b>PIONEER</b> <small>the lost art of wealth management</small>	<b>To garner 3-5% share of the market</b>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Indexed Reln Value</p> </div> <div style="text-align: center;"> <p>Indexed CASA</p> </div> </div>
<b>NRI Banking</b>	<ul style="list-style-type: none"> <li>Focus on top corridors</li> <li>End to end digital frictionless journeys</li> <li>24x7 Specialized Service Team</li> </ul>	<b>To garner 5% market share</b>	
<b>Merchant Acquiring &amp; SME Banking</b>	<ul style="list-style-type: none"> <li>Dedicated Team to acquire merchants to drive CA</li> <li>Drive focus in identified SME clusters</li> </ul>	<b>Acquire 100,000 merchants / year; Garner 3-5% share of SME business in identified clusters</b>	<ul style="list-style-type: none"> <li>Merchant Acquiring to be ~25% of Retail CA book by Mar-22</li> <li>Double acq. run rate on CA, FX &amp; BB</li> </ul>
<b>Partnerships/Alliances</b>	<ul style="list-style-type: none"> <li>Eg: Indus-Stox 3-in-1 with a new age mobile first brokerage fintech</li> <li>Partnerships with payment soln providers, wealth fintechs, etc</li> </ul>	<b>To create an alternate channel for acquiring 1 mn clients / year</b>	<ul style="list-style-type: none"> <li>To create an alternate bank of the size of current acquisition volume / yr</li> </ul>
<b>BAU Scale-up</b>	<ul style="list-style-type: none"> <li>Branch scale up from 2000 to 3000</li> <li>Scale up corporate salary</li> <li>Expansion of home markets</li> </ul>	<b>Nearly Double client acquisition run rate</b>	<ul style="list-style-type: none"> <li>16-18 Home Markets</li> <li>Scale up acquisition to 200,000 new clients per month</li> </ul>

Source: Company, PL

**Exhibit 11: Unsecured lending book has 20-30% lower risk post data from digital initiatives**



Source: Company, PL

## Microfinance - Bharat Finance Team

- 75000 center meetings a day and 6lac center meetings over week. AUM growth was led by customer acquisition over last 10 years
- **For New center** – Atleast, 60 households to start doing the center, then factor in law order situation and affluence of political parties and accessibility of the village round the year.
- In a cash center meeting group leader pays to the sangam manager which implies group meets a day earlier to collect cash, but yet have continued of compulsory attendance in the center meetings. Presence is also required for new disbursement of loans as consent of all members is required also members of family can't be in same group and can be in same center.
- **Geographical distribution** - Bihar now top state exposure which was number 4-5 a few years back but due to Orissa issues incl. Fani and higher ticket size lending in WB had scaled down business. New states entered are TN with very few branches, Assam, Tripura which is 0.1% of loans. **240 new village areas where branches can be added in existing state presence**
- **RDSPs** – Have opened +13000 RDSP Kirana stores mainly in Odisha (8500+), Karnataka (3600+) which are near the MFI centers and act as banking outlets. Modelled with many partner but had to make way for self. Plan to reach 1.6lakh villages as target.
- **Human resource** - Attrition of 28% but if staff stays more than 1-1.5 years they stay longer. Currently, average staff vintage is +7 years and branches also is +7 years' average. Don't incentivize on collections efficiency and ticket size basis but efficiency basis.
- **Strong digital adoption** –
  - **Uberisation of Sangam managers (SMs)** - Geotagging of sangam managers is going on real time, which will help center meeting times, access to location of SMs. Kms travelled can be tagged from map and paid to him directly and improve efficiency. (Rs30mn saved in fuel reimbursement)
  - Only Bhafin and SBI figure in the Top 10 intermediaries using Aadhar based authentication and payments while others are telecom companies according to UIDAI report.
  - Early warning if center meetings are getting delayed and continues for more instances...there could be stress.

**Exhibit 12: Return ratios have cushion for incremental stress concerns**

RoE decomposition (%)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest income	9.75	9.09	8.96	8.63	9.56	9.45	9.41	9.29
Interest expenses	6.31	5.55	5.19	4.89	5.48	5.53	5.57	5.57
<b>Net interest income</b>	<b>3.44</b>	<b>3.55</b>	<b>3.77</b>	<b>3.75</b>	<b>4.08</b>	<b>3.92</b>	<b>3.85</b>	<b>3.72</b>
Treasury income	0.84	0.77	0.74	0.65	0.58	0.43	0.43	0.39
Other Inc. from operations	1.58	1.82	1.85	1.73	1.75	1.70	1.61	1.54
<b>Total income</b>	<b>5.86</b>	<b>6.14</b>	<b>6.37</b>	<b>6.12</b>	<b>6.41</b>	<b>6.05</b>	<b>5.88</b>	<b>5.65</b>
Employee expenses	0.99	0.97	0.95	0.89	0.90	0.84	0.79	0.74
Other operating expenses	1.76	1.91	2.03	1.90	1.86	1.75	1.71	1.68
<b>Operating profit</b>	<b>3.12</b>	<b>3.25</b>	<b>3.39</b>	<b>3.33</b>	<b>3.65</b>	<b>3.47</b>	<b>3.37</b>	<b>3.23</b>
Tax	0.92	0.93	0.93	0.94	0.82	0.68	0.70	0.69
Loan loss provisions	0.39	0.53	0.68	0.59	1.24	0.86	0.66	0.57
<b>RoAA</b>	<b>1.80</b>	<b>1.80</b>	<b>1.78</b>	<b>1.80</b>	<b>1.59</b>	<b>1.93</b>	<b>2.00</b>	<b>1.97</b>
<b>RoAE</b>	<b>18.22</b>	<b>16.14</b>	<b>14.96</b>	<b>16.21</b>	<b>14.81</b>	<b>17.87</b>	<b>18.35</b>	<b>18.20</b>

Source: Company, PL Research

**Exhibit 13: Change in estimates table – We retain our estimates keeping overall credit cost at 120bps**

Rs (mn)	Old			Revised			% Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net interest income	122,964	144,464	169,164	122,964	144,464	169,164	-	-	-
Operating profit	108,864	126,743	146,715	108,864	126,743	146,715	-	-	-
Net profit	60,479	75,316	89,400	60,479	75,316	89,400	-	-	-
EPS, Rs.	87.4	108.7	128.9	87.4	108.7	128.9	-	-	-
ABV per share, Rs.	491.3	613.4	720.8	491.3	613.4	720.8	-	-	-
<b>Price target, Rs.</b>		<b>1,640</b>			<b>1,640</b>			-	
<b>Recommendation</b>		<b>BUY</b>			<b>BUY</b>				

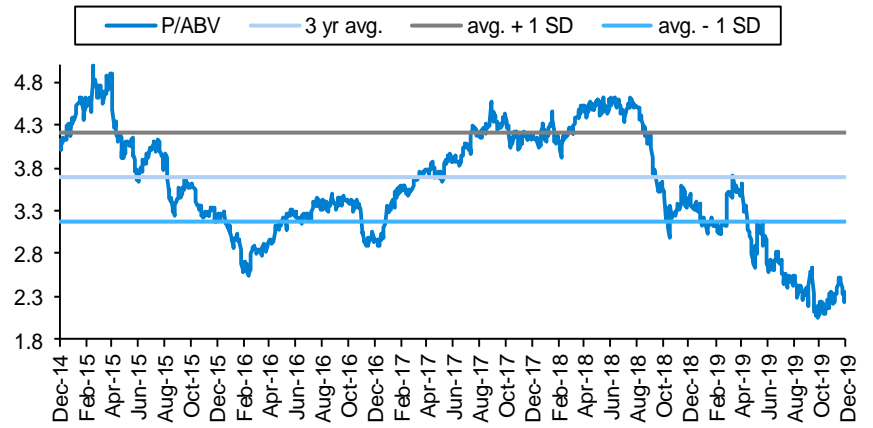
Source: Company, PL

**Exhibit 14: We maintain our TP of Rs1,640 based on 2.5x Sep-21 ABV – Upside remains capped as corporate book stress is to lower**

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	6.5%
Risk-free rate	7.5%
Adjusted beta	1.08
<b>Cost of equity</b>	<b>14.5%</b>
<b>Fair price - P/ABV, Rs</b>	<b>1,640</b>
<b>Target P/ABV (x)</b>	<b>2.5</b>
<b>Target P/E (x)</b>	<b>13.8</b>
Current price, Rs	1,485
<b>Upside (%)</b>	<b>10%</b>

Source: Company, PL Research

Exhibit 15: One year forward valuation chart – Trading lower than historic valuations



Source: Company, PL Research

**Income Statement (Rs. m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
Int. Earned from Adv.	203,637	249,653	294,774	350,843
Int. Earned from invt.	36,773	43,939	55,603	67,389
Others	3,285	3,041	3,310	4,140
<b>Total Interest Income</b>	<b>243,696</b>	<b>296,633</b>	<b>353,687</b>	<b>422,371</b>
Interest Expenses	139,726	173,669	209,223	253,207
<b>Net Interest Income</b>	<b>103,970</b>	<b>122,964</b>	<b>144,464</b>	<b>169,164</b>
<i>Growth(%)</i>	33.3	16.4	16.3	16.2
Non Interest Income	59,310	67,021	76,403	87,482
<b>Net Total Income</b>	<b>163,280</b>	<b>189,984</b>	<b>220,868</b>	<b>256,646</b>
<i>Growth(%)</i>	37.5	20.0	18.3	18.5
Employee Expenses	22,863	26,293	29,711	33,722
Other Expenses	44,898	52,082	61,456	73,133
Operating Expenses	70,230	81,121	94,125	109,931
<b>Operating Profit</b>	<b>93,050</b>	<b>108,864</b>	<b>126,743</b>	<b>146,715</b>
<i>Growth(%)</i>	39.8	17.0	16.4	15.8
NPA Provision	27,190	25,388	22,675	22,881
Total Provisions	31,620	27,135	24,965	25,904
<b>PBT</b>	<b>61,430</b>	<b>81,728</b>	<b>101,778</b>	<b>120,811</b>
Tax Provision	20,890	21,249	26,462	31,411
<i>Effective tax rate (%)</i>	34.0	26.0	26.0	26.0
<b>PAT</b>	<b>40,540</b>	<b>60,479</b>	<b>75,316</b>	<b>89,400</b>
<i>Growth(%)</i>	12.4	49.2	24.5	18.7

**Balance Sheet (Rs. m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
Face value	10	10	10	10
No. of equity shares	692	693	694	694
Equity	6,922	6,926	6,937	6,937
Networth	308,988	367,848	452,879	529,755
<i>Growth(%)</i>	29.7	19.0	23.1	17.0
Adj. Networth to NNPA's	22,653	24,365	24,057	26,457
Deposits	1,948,679	2,396,875	2,972,125	3,685,435
<i>Growth(%)</i>	28.5	23.0	24.0	24.0
CASA Deposits	840,701	1,030,656	1,263,153	1,569,995
<i>% of total deposits</i>	43.1	43.0	42.5	42.6
<b>Total Liabilities</b>	<b>2,880,372</b>	<b>3,399,472</b>	<b>4,114,354</b>	<b>4,974,598</b>
Net Advances	1,941,015	2,290,398	2,748,477	3,353,142
<i>Growth(%)</i>	33.9	18.0	20.0	22.0
Investments	592,662	731,704	931,722	1,114,823
<b>Total Assets</b>	<b>2,880,484</b>	<b>3,399,472</b>	<b>4,114,354</b>	<b>4,974,598</b>
<i>Growth (%)</i>	30.0	18.0	21.0	20.9

**Asset Quality**

Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross NPAs (Rs m)	40,053	54,104	55,654	60,397
Net NPAs (Rs m)	22,653	24,365	24,057	26,457
<i>Gr. NPAs to Gross Adv.(%)</i>	2.1	2.4	2.0	1.8
<i>Net NPAs to Net Adv. (%)</i>	1.2	1.1	0.9	0.8
<i>NPA Coverage %</i>	43.4	55.0	56.8	56.2

**Profitability (%)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
NIM	4.3	4.2	4.1	3.9
RoAA	1.6	1.9	2.0	2.0
RoAE	14.8	17.9	18.4	18.2
Tier I	15.3	16.3	16.8	16.7
CRAR	15.8	17.1	17.5	17.3

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Interest Income	57,635	59,914	69,614	71,504
Interest Expenses	34,754	37,591	41,174	42,408
<b>Net Interest Income</b>	<b>22,881</b>	<b>22,324</b>	<b>28,440</b>	<b>29,095</b>
<i>YoY growth (%)</i>	45.3	42.3	39.8	31.1
CEB	12,660	14,190	14,220	14,680
Treasury	-	-	-	-
Non Interest Income	14,689	15,590	16,633	17,267
<b>Total Income</b>	<b>72,323</b>	<b>75,504</b>	<b>86,246</b>	<b>88,770</b>
Employee Expenses	4,521	4,812	6,472	5,155
Other expenses	11,879	12,424	12,691	15,208
Operating Expenses	16,400	17,237	19,163	20,363
<b>Operating Profit</b>	<b>21,170</b>	<b>20,677</b>	<b>25,910</b>	<b>25,999</b>
<i>YoY growth (%)</i>	27.2	16.9	35.6	30.5
Core Operating Profits	19,140	19,277	23,500	23,409
NPA Provision	5,560	20,040	3,040	3,630
Others Provisions	6,067	15,607	4,306	7,377
Total Provisions	6,067	15,607	4,306	7,377
<b>Profit Before Tax</b>	<b>15,103</b>	<b>5,070</b>	<b>21,603</b>	<b>18,622</b>
Tax	5,253	1,469	7,278	4,789
<b>PAT</b>	<b>9,850</b>	<b>3,601</b>	<b>14,325</b>	<b>13,834</b>
<i>YoY growth (%)</i>	5.2	(62.2)	38.3	50.3
<b>Deposits</b>	<b>1,757,010</b>	<b>1,948,679</b>	<b>2,005,860</b>	<b>2,071,934</b>
<i>YoY growth (%)</i>	20.3	28.5	26.3	23.2
<b>Advances</b>	<b>1,731,690</b>	<b>1,863,935</b>	<b>1,935,200</b>	<b>1,971,126</b>
<i>YoY growth (%)</i>	34.7	28.6	28.4	20.8

**Key Ratios**

Y/e Mar	FY19	FY20E	FY21E	FY22E
CMP (Rs)	1,485	1,485	1,485	1,485
EPS (Rs)	62.7	87.4	108.7	128.9
Book Value (Rs)	442	526	648	759
Adj. BV (70%)(Rs)	409	491	613	721
P/E (x)	23.7	17.0	13.7	11.5
P/BV (x)	3.4	2.8	2.3	2.0
P/ABV (x)	3.6	3.0	2.4	2.1
DPS (Rs)	6.5	10.0	12.5	15.0
<i>Dividend Payout Ratio (%)</i>	10.4	11.4	11.5	11.6
<i>Dividend Yield (%)</i>	0.4	0.7	0.8	1.0

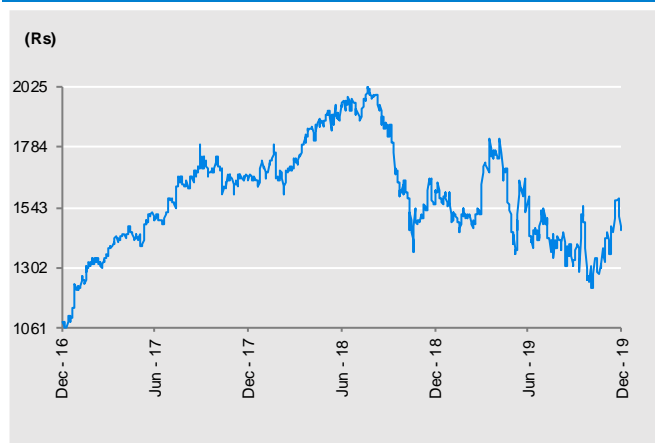
**Efficiency**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<i>Cost-Income Ratio (%)</i>	43.0	42.7	42.6	42.8
<i>C-D Ratio (%)</i>	99.6	95.6	92.5	91.0
Business per Emp. (Rs m)	140	156	177	201
Profit per Emp. (Rs lacs)	15	20	23	26
Business per Branch (Rs m)	2,336	2,346	2,386	2,446
Profit per Branch (Rs m)	24	30	31	31

**Du-Pont**

Y/e Mar	FY19	FY20E	FY21E	FY22E
NII	4.08	3.92	3.85	3.72
Total Income	6.41	6.05	5.88	5.65
Operating Expenses	2.76	2.58	2.51	2.42
PPoP	3.65	3.47	3.37	3.23
Total provisions	1.24	0.86	0.66	0.57
RoAA	1.59	1.93	2.00	1.97
RoAE	14.81	17.87	18.35	18.20

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Oct-19	BUY	1,640	1,229
2	3-Oct-19	BUY	1,832	1,256
3	12-Jul-19	BUY	1,800	1,510
4	4-Jul-19	BUY	1,800	1,493
5	28-Jun-19	BUY	1,800	1,420
6	22-May-19	BUY	1,832	1,528
7	5-Apr-19	BUY	1,791	1,768
8	9-Jan-19	BUY	1,765	1,602
9	7-Jan-19	BUY	1,750	1,559

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	800	713
2	Bank of Baroda	BUY	115	91
3	Bank of India	Reduce	58	62
4	Federal Bank	BUY	102	82
5	HDFC	BUY	2,700	2,376
6	HDFC Bank	BUY	1,406	1,229
7	HDFC Life Insurance Company	Hold	605	573
8	ICICI Bank	BUY	605	511
9	ICICI Prudential Life Insurance Company	Accumulate	544	485
10	IDFC First Bank	BUY	44	39
11	IndusInd Bank	BUY	1,640	1,229
12	Jammu & Kashmir Bank	Under Review	-	32
13	Kotak Mahindra Bank	Hold	1,586	1,627
14	Max Financial Services	BUY	596	439
15	Punjab National Bank	Reduce	57	64
16	SBI Life Insurance Company	BUY	991	840
17	South Indian Bank	BUY	18	10
18	State Bank of India	BUY	413	290
19	Union Bank of India	Reduce	44	52
20	YES Bank	Hold	59	67

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<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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