26 February 2020

Update | Sector: Financials

Federal Bank

BSE SENSEX	S&P CNX
39,889	11,679

CMP: INR85 **TP: INR115 (+35%)** **Buy**

Asset quality turning better; RoA expansion to continue

Asset mix improving; liability franchise remains top-class

We attended Federal Bank (FB) Analyst Day, wherein the bank discussed the recent trends and opportunities, along with the key levers for RoA expansion.

- **FB has identified new revenue streams such as micro finance, credit card, CV/CE and business banking for margin expansion. It has set a target of achieving a retail:wholesale loan mix of 55:45 over the medium-to-long term.**
- **The bank reiterated that there is no residual stress in corporate accounts above INR1b. It thus expects the slippage trend to moderate significantly, which in turn will drive controlled credit cost.**
- **Work is happening to improve productivity by adding branches in a calibrated manner and a high focus is placed on leveraging the distribution channel through the RM model. This will drive a further improvement in the C/I ratio.**
- **FB has guided for an exit RoA of 1.25% by FY21. Overall, the bank is aiming to increase RoA by 25-30bp over the next 2-3 years.**

We believe that the stock trades at inexpensive valuations (1.1x Sep'21E ABV) and thus offers ample scope of re-rating as the earnings cycle recovers. We thus project earnings CAGR of 25% over FY20-22 with RoA/RoE of 1.2%/15.5% by FY22. Maintain Buy with a target price of INR115 (1.4x for Sep'21E ABV).

Focus on sustainable growth; retail loan mix to improve gradually

FB has been looking for sustainable loan growth with a strong focus on growing the retail book at 25% YoY while consciously slowing down in the wholesale segment due to the current challenging environment. The bank has been gaining market share in chosen segments like Housing (~5% of pvt. sector), Auto (~2%) and Personal loans (0.6%) and has also identified new revenue streams such as micro finance, credit card, CV/CE and business banking. The core focus is to shift the asset mix toward high-yielding segments. It has set a target of achieving a retail:wholesale loan mix of 55:45 over the medium-to-long term.

Wholesale lending: Watch-list dissolution nearly complete; ~96% of portfolio of investment grade

The bank has improved its rating profile in the wholesale book over the last few years (~96% of wholesale book is of investment grade v/s 74% in FY15). It reiterated that there is no residual stress in corporate accounts above INR1b, mainly led by the higher focus on working capital loans and cash flow-based lending, which resulted in lower stress on the incremental portfolio. Further, the bank expects the mid-corporate segment to grow at a higher pace compared to large corporate lending.

Stock Info

Bloomberg	FB IN
Equity Shares (m)	1,992
M.Cap.(INRb)/(USDb)	169.5 / 2.4
52-Week Range (INR)	110 / 79
1, 6, 12 Rel. Per (%)	-8/-4/-7
12M Avg Val (INR M)	1187
Free float (%)	100.0

Financials Snapshot (INR b)

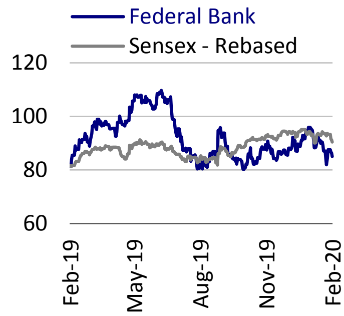
Y/E Mar	FY19	FY20E	FY21E	FY22E
NII	41.8	46.4	54.6	63.8
OP	27.6	30.8	38.2	46.4
NP	12.4	17.1	21.7	26.8
NIM (%)	3.1	3.0	3.1	3.1
EPS (INR)	6.3	8.6	11.0	13.5
EPS Gr. (%)	32.2	37.2	27.0	23.3
BV/Sh. (INR)	66.9	73.5	82.1	92.7
ABV/Sh. (INR)	59.1	64.2	71.6	81.3
Ratios				
ROE (%)	9.8	12.3	14.1	15.5
ROA (%)	0.8	1.0	1.1	1.2
Payout (%)	19.1	22.4	22.0	21.4
Valuations				
P/E(X)	13.5	9.9	7.8	6.3
P/BV (X)	1.3	1.2	1.0	0.9
P/ABV (X)	1.4	1.3	1.2	1.0
Div. Yield (%)	1.4	2.3	2.8	3.4

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	0.0	0.0	0.0
DII	37.4	34.8	29.5
FII	33.6	36.1	38.3
Others	29.0	29.1	32.2

FII Includes depository receipts

Stock Performance (1-year)



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Asset quality to improve gradually; maintains healthy coverage ratio at 66.2% (incl. TWO)

FB has reported a sharp decline in net stressed loans to ~1.6% of average assets from 3.4% in FY15. Also, there is no stress in corporate accounts above INR1b. It thus expects corporate slippages to moderate significantly and cash recovery trends to remain strong. Also, retail/agri/business banking trends are improving for last few quarters, and thus NPAs in retail assets have improved to 1.8% from 2.1% in 3QFY18. FB maintains a healthy coverage ratio of 66.2% (incl. TWO), which will facilitate controlled credit costs (our estimate: ~62bp over FY20-22).

Strong liability franchise; CASA + retail TD constitute ~91% of total deposits

Liability franchise has been holding up well, with term deposits growing at 20% YoY. Also, CASA + retail term deposits constitute ~91% of total deposits. It has lower cost of funds (5.8% as on 3QFY20) advantage compared to other mid-size banks. FB is a strong player in NRI remittances – it has a market share of 6.1% in the pan-India NR business and 15.7% in personal inward remittances. FB is focused on cross-selling liability products to corporate clients to garner salary accounts.

Levers for RoA expansion; guides for exit RoA of 1.25% by FY21

Margins were impacted in the past due to lower yields and higher interest reversal (~5bp impact in 3QFY20). However, moderating slippage trends and asset mix change toward high-yield segments (such as business banking, disbursing higher gold loans in semi-urban areas, expanding micro loans through BC model, CV/CE and credit cards) will help in improving the margin trajectory by 10-15bp. Further, FB has been working to improve productivity by adding branches in a calibrated manner and placing a higher focus on leveraging the distribution channel through the RM model. This will further drive an improvement in the C/I ratio. Also, high focus on retail assets will help improve fee income, further supporting incremental RoAs. Overall, the bank has guided for an exit RoA of 1.25% by FY21. It is looking for an RoA increase of 25-30bp over the next 2-3 years.

Valuation view

In our view, FB is well placed to deliver RoA expansion led by moderating slippage trends, which will facilitate controlled credit costs. Margin prospects appear promising with the asset mix change toward high-yield segments. Also, the strong liability franchise will enable lower cost of funds. The bank will add branches in a calibrated manner and thus the C/I ratio is expected to improve to ~48% by FY22 from 50% in FY19. We slightly tweak our estimates and project earnings CAGR of 25% over FY20-22 with RoA/RoE of 1.2%/15.5% by FY22. We believe that the stock is trading at inexpensive valuations (1.1x Sep'21E ABV) and thus offers ample scope of re-rating. Maintain Buy with a TP of INR115 (1.4x for Sep'21E ABV).

Key takeaways from session with top management

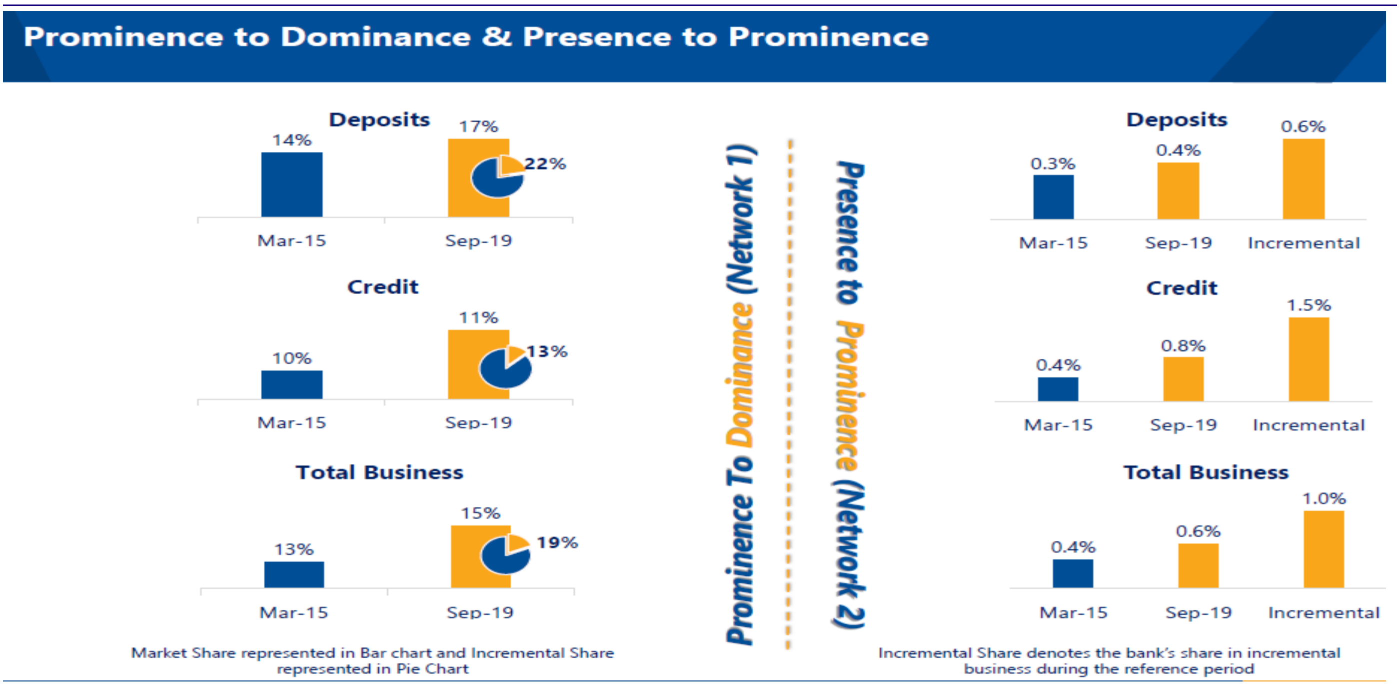
Session #1: Session with MD & CEO and Executive Directors

State of Play – Mr Shyam Srinivasan (MD & CEO)

RoAs are expected to improve on the back of higher NIM, strong fee income growth, reduction in cost ratios, and lower credit cost.

- The bank has an exit RoA target of 1.1% for FY20 and 1.25% for FY21 (improvement of 10-12bp every year). Overall, the bank is looking for an increase in RoA of 25-30bp over the next 2-3 years.
- **RoA levers:** Improving CD ratio, higher NIM and fee income, cost control and a reduction in credit cost.
- NIM is expected to improve by 10-15bp, while credit cost could be lower by 8-10bp. Fee income could further increase and support incremental RoA.
- The bank guided for credit cost of 65-70bp for FY20.
- FB is looking to factor in wage revision of ~15% by FY20 and will recognize the remaining in 4Q. If the rate negotiation is higher, the wage-related provision could increase going forward.
- The focus for the bank remains on sustainable growth with an emphasis on strengthening the core – leveraging data, digital and distribution.
- Liability profile remains strong and is expected to reap benefits going forward.
- **The bank aims to pursue and scale up its new revenue streams with high yield potential: microfinance, credit card, CV/CE and business banking.**
- It aims for a loan mix of 55:45 for retail:wholesale in the medium term.
- Incremental share of bank in total business outside Kerala is panning out well and remains on the higher side. The bank is constantly gaining market share.
- Share of digital transaction increased from 40% in FY15 to 80% as on 3QFY20.
- The bank plans to add 10-15 branches in FY20 and another 25 in FY21.
- CoF for the bank is at ~5.7% which is amongst the lowest in the banking sector.

Exhibit 1: FB's market share in Kerala and outside Kerala



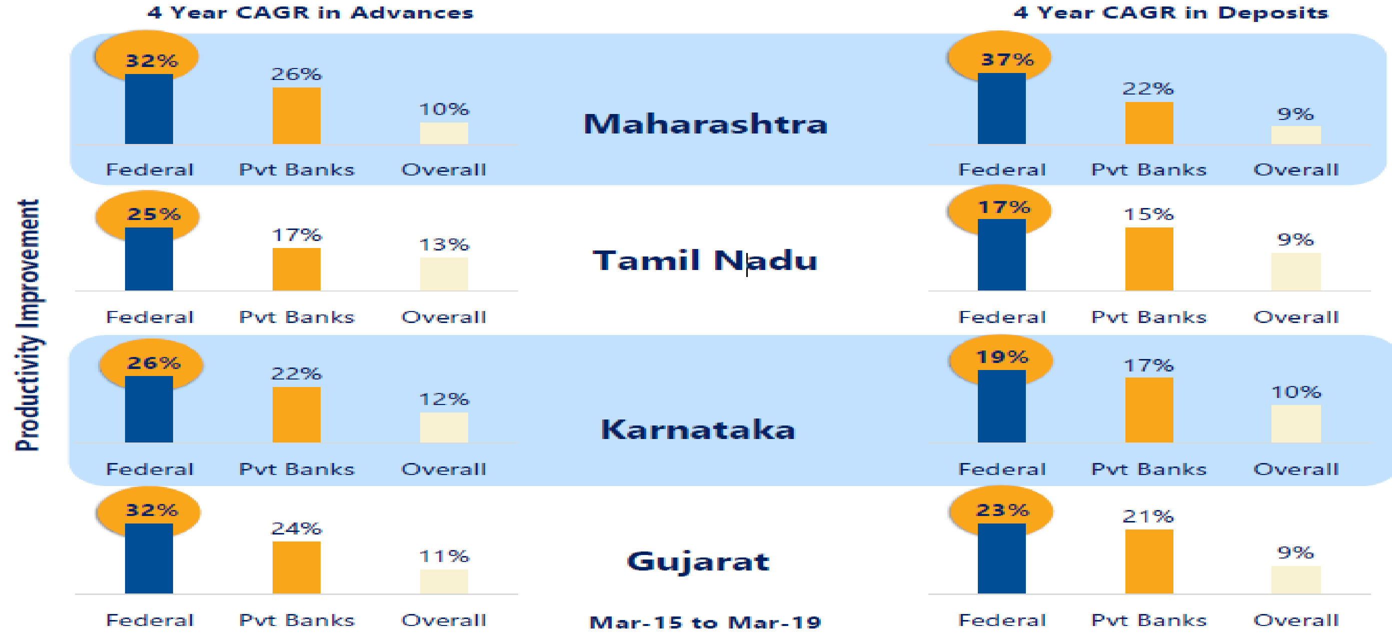
Source: MOFSL, Company

Through the Financial Lens – Mr Ashutosh Khajuria (Executive Director & CFO)

Retail deposits stand at 91%, while retail business is expected to grow at a higher pace.

- Retail deposits for the bank constitute 91%, while NRI deposits account for 39%.
- Of the total 1,255 branches, 656 branches are outside Kerala.
- Asset quality remains stable with total stressed book to total assets declining continuously – stands at 1.59% as on 3QFY20.
- The focus is on improving RoRWA which is at 1.92% (annualized for 3QFY20).
- Traction in fee income has started reaping benefits and expected to grow at the current rate in excess of 30%.
- The bank has an LCR ratio of 181% as on 9MFY20.
- The retail business continues to do well with business banking and gold loans growing in excess of 25%.
- The chosen territories to grow outside Kerala were Tamil Nadu, Karnataka, Maharashtra and Gujarat; it is gaining market share in those states.
- Asset quality ratios for the bank are lower than the overall asset quality ratios of total private sector banks.
- Capital level remains healthy and is not looking to raise capital in near term.

Exhibit 2: FB is gaining market share in target states outside Kerala and is growing higher than industry



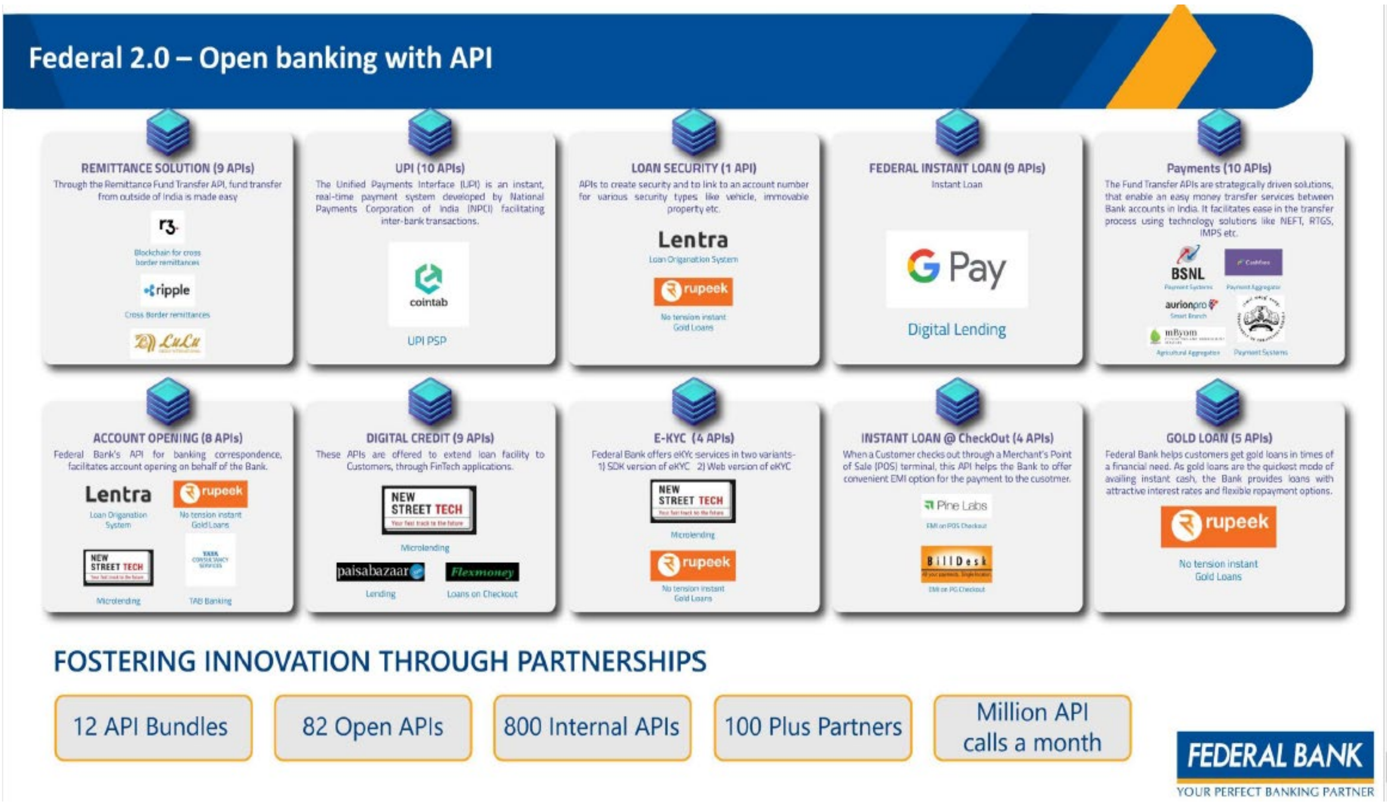
Source: MOFSL, Company

Operational Excellence and Right to Grow - Ms. Shalini Warrier (Executive Director, Chief Operating Officer & Head – Retail)

Operational efficiencies and digital offerings to drive a reduction in cost income ratios.

- Growth and granularity in liabilities to be the “moat for the bank”. The bank will continue to focus on improving granularization.
- The bank was the first to link their loans to repo rates.
- FB has a market share of 15.7% in personal inward remittances to India (~40% from Kerala) and a market share of 6.1% in pan-India NR business
- ~17% of the business comes from non-GCC countries.
- The bank has a wholly owned subsidiary ‘FedServ’ looking after the operations of the bank which is expected to provide ~2%-3% benefit in the C/I ratios.

Exhibit 3: FB offerings through digital channels



Source: MOFSL, Company

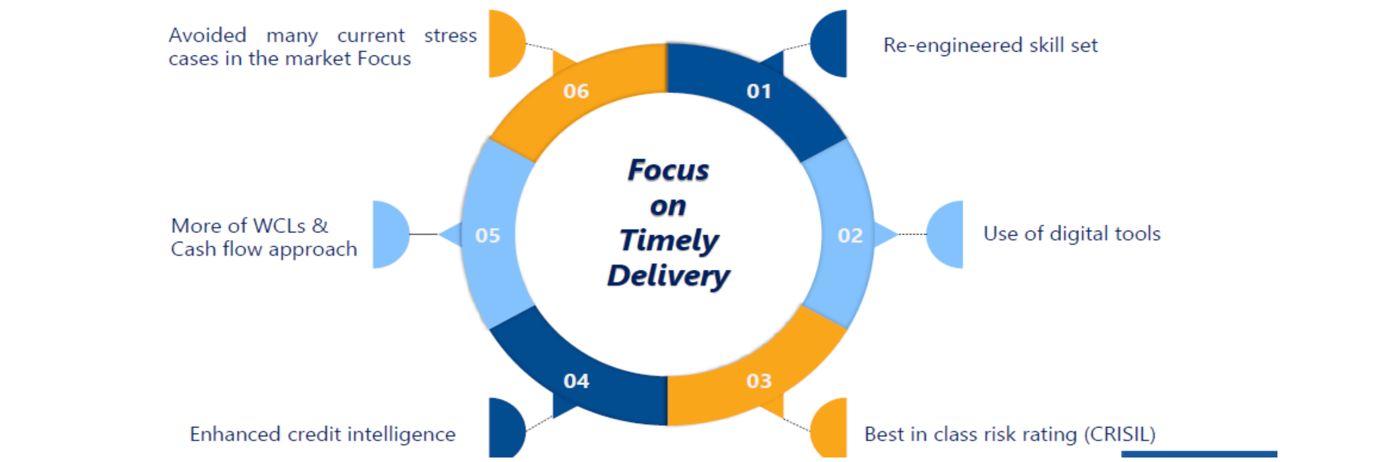
Session #2: Wholesale Banking – Mr Harsh Dugar (Country Head - Corporate & Institutional Banking), Mr Nanda Gopalan (SVP & Head – LCH), Mr Lakshmanan V (Head – Treasury Sales) and Mr Pitchai Mahalingam (Head – Transaction Banking)

84% of the book is rated A & above, while BBB & below rated book stands at ~4%.

- Wholesale banking has a total book of INR630b with corporate & institutional banking constituting 80% and commercial banking accounting for 20%.
- The bank has gained a market share from ~76bp to 118bp in three years - growing at ~4% of incremental credit.
- ~96% of the book is of investment grade with 84% rated A & above v/s 55% in FY15. BBB & below rated book stands at ~4%.
- The bank has been able to maintain yields despite economic challenges while trade volumes also have increased.
- **Average ticket size:** CIB (INR640m) and CB (INR70m)
- Corporate banking has a team of 50 members.
- Wholesale banking has a full bouquet of products which are margin accretive.
- **Incremental client addition:** CIB (333) and CB (656) which comprises ~45% of total o/s customers.
- Fees have grown 3x over the past three years.
- The bank has ~38% penetration in the salary base which has been achieved over the past three years.
- **Levers of growth** – Group penetration, sector expertise, mid-market expansion, deeper geography and peer bank relationships.
- Mid-market segment is expected to grow at a much higher pace than the large corporate segment.

- The bank has adopted more of working capital loans and cash flow approach which resulted in lower stress and avoided exposure to the current stress names.
- The credit risk management department is well oiled for further growth.
- **Treasury:** The bank has a 28-member team in treasury.
- Growth has been supported by a widened product suite such as long-dated forwards, large swap deals, wallet maximization, foreign currency funding, etc.
- All the above have resulted in widening of customer base and an increase in volumes.
- The bank has a market share of 3-4% in inter-bank FX spot.
- **Transaction banking**: The focus is on creating competitive advantage through cash management services, supply chain finance, trade finance, escrow services etc.
- The bank provides product specialists in account planning/wallet sizing and customer advisory.
- FB has built dedicated corporate client service centers for operational support and focused customer service.
- Volumes have grown at ~85% with 2.2m transactions per month

Exhibit 4: Robust and contemporary credit architecture



Source: MOFSL, Company

Exhibit 5: Transaction banking: Product capabilities

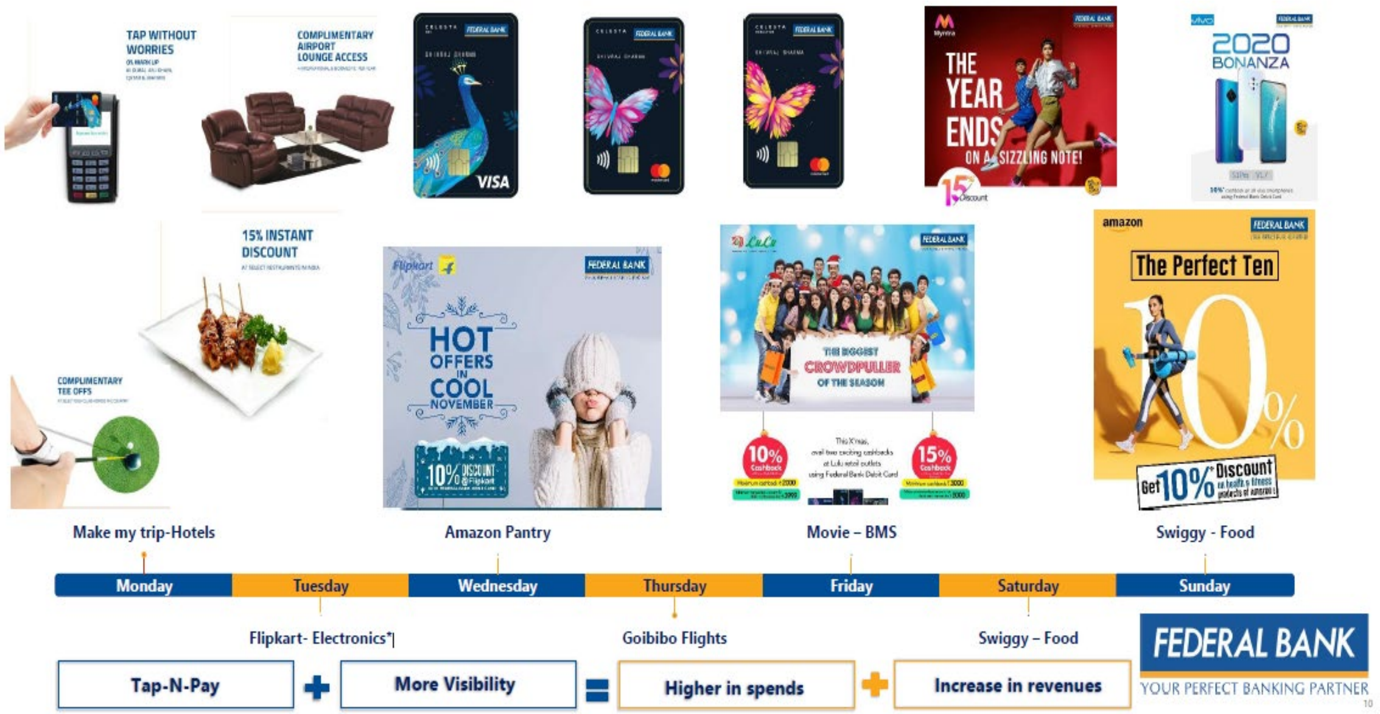
Source: MOFSL, Company

Session #3: Retail Bankng – Ms Nilufer Mullanfiroze (SVP – Retail Business), Mr Divakar Dixit (SVP – Credit) and Mr Damodaran C (Head – Corporate Planning & Analytics)

Retail business is growing well and will continue to grow by leveraging technology and cross-sell.

- Bank has a full suite of offerings under retail business which is growing at ~25%.
- Retail for the industry is growing at ~15% which has resulted in an increase in market share for the bank.
- **Market share:** Housing loans (5%), auto loans (2%), LAP (4.5%) and PL (0.6%).
- 75% of book is low margin while 25% is a higher margin book v/s 90:10 in FY11.
- NPA in retail stands at 1.8% in 3QFY20.
- **New to bank customers:** Housing loans (50%), LAP (38%), Auto loans (35%) and personal loans (1%).
- The bank will soon launch its credit cards.
- The bank has six retail credit centers across India which uses extensive data analytics for better credit underwriting.
- The process is structured to provide customized solutions.
- The bank is using touch and fees (personal discussion) for mortgage loans while using digital loan processing for personal and auto loans.
- The credit decisions are based on the estimation of cash flows.
- The focus is on improving TAT and ensuring lower slippages.
- The mortgage loan book for the bank is quite granular.
- The bank uses both external and internal data in decision making process.
- Extensive use of analytics to cross sell/up sell and providing pre-approved offers.
- The bank is managing risk through PD, LGD and credit risk models.
- Continuously monitors the model on an on-going basis and uses behavioral finance for managing the customers in a better way.
- The bank is geared up for transitioning to Ind-AS model (ECL model).

Exhibit 6: Engagement via debit card, the core strategy for sticky deposits as well as deep analytics for cross-sell



Source: MOFSL, Company

Session #4: Margin Enhancers – Mr Rathish R (Head – Business Banking), Mr Mohan K (Country Head – Agri, Micro & Rural Banking) and Mr Srinvasan K (Country Head – CV/CE)

Business banking is growing in excess of 25% with the bank constantly gaining market share

- The business banking book stands at INR104b – it is a high yielding, high RoA business with ~36k customers across the country.
- The bank has witnessed ~400bp increase in home market share with the book growing in excess of 25%.
- The segment has a total of 113 RMs catering to 150+ branches and looking to scale up in more geographies.
- The focus is on leveraging the RM model to further acquire business.
- Total MSME lending market share increased to 11.6% in the home market with an incremental business share of 22.2%.
- The Agri, micro and rural banking has a book of INR150b with ~0.9m customers.
- Gold loan comprises ~INR90b, while the rest is traditional Agri business.
- Yield on traditional agri business has increased from 9% to ~10%.
- Share of metro-urban v/s semi-urban in gold loans increased from 30:70 in FY18 to 36:64 in FY20.
- Gold loans have a yield of ~10%. Overall agri loans have a yield of 10.5% v/s 9.8% in FY19.
- The focus is on improving the share of gold loans in semi-urban areas as they are high-yielding businesses.
- The bank is witnessing ~30% growth in gold loans with the share of high-yielding loans increasing at a constant pace. This is likely to increase the yield to ~11%.
- The bank is disbursing ~INR1.1b per month with aspiration to increase to INR2.5b per month in next financial year.

The bank has started MFI and CV/CE book which is expected to show healthy traction.

- Micro finance business is small and looking to expand it in a risk-calibrated manner. It has a book of ~INR500m with ~13k customers. The focus is on expanding business through multiple BCs.
- The bank started CV/CE business in FY19 and has a team of 25 members.
- The bank selected two geographies with high potential (Tamil Nadu and Maharashtra) and the focus is on lending toward purchase of new vehicles.
- The bank has a target to exit FY20 with a book of INR6b-6.5b.
- Delinquency level in the CV/CE business remains very low.

Session #5: Subsidiaries and Progress – Mr. Ashutosh Khajuria (Executive Director & CFO)

- **FedFina:** Started operations in 2010
- The loan book stood at INR9b in FY17, INR14b in FY18, INR20b in FY19 and is expected to reach INR40b by FY20.
- It is rated AA-; however, cost of debt is reasonable given strong parentage.
- **Business includes gold loans, LAP with ticket size of INR7.5m and INR1.5m and unsecured segments with a ticket size of INR2m.**
- It had a branch count of 150 in FY19, expected to have ~300 by FY20 and will add another 100 branches in FY21.
- Yields stood at ~14.5% and cost of funds at ~9% with NIMs of ~7.5%.
- The subsidiary has an RoA of 8.5% for the current year with a target to increase it further in the coming years.

Story in charts

No big-ticket corporate loans above INR1b in the watch-list.

Exhibit 7: Net stress loans decline to 2.3% of total loans

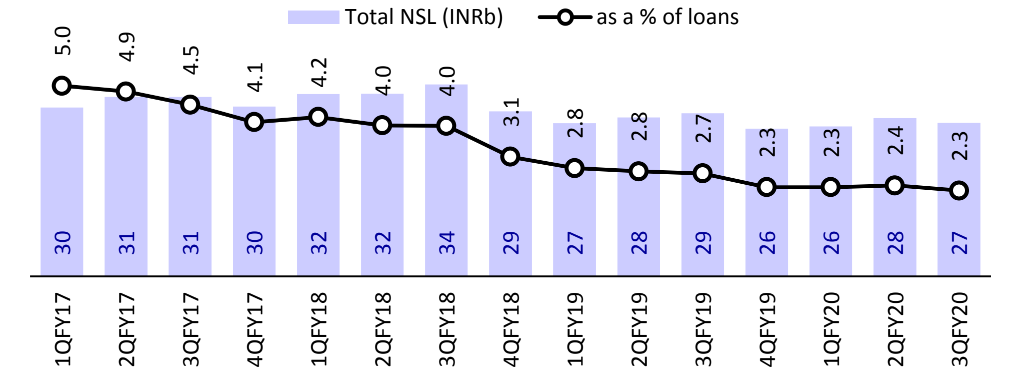
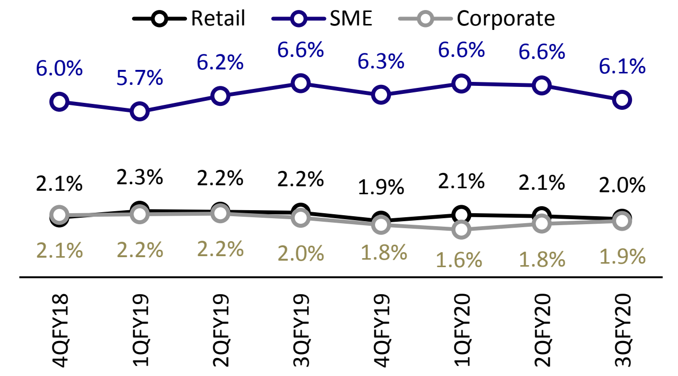
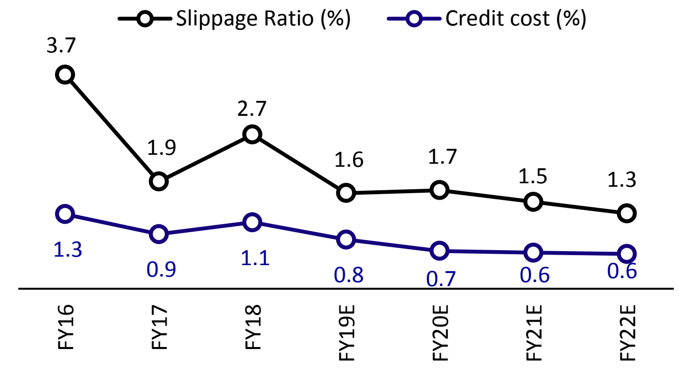


Exhibit 8: Retail GNPA stable; corporate NPAs improving



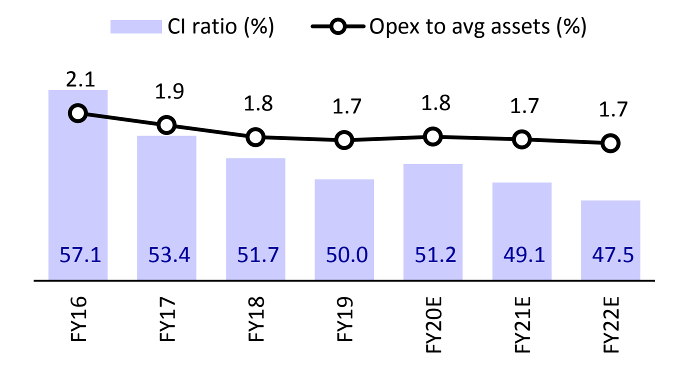
Source: MOFSL, Company

Exhibit 9: Slippage ratio/credit cost to moderate



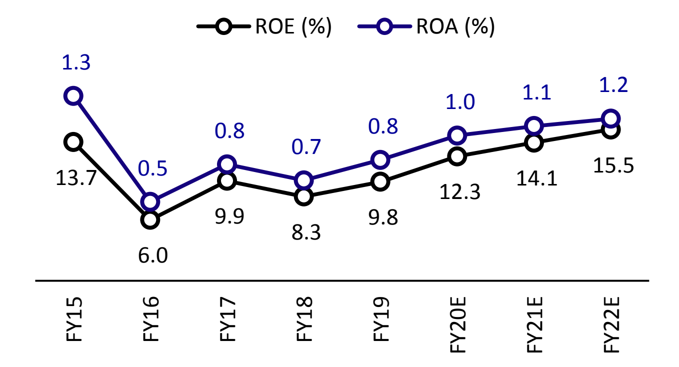
Source: MOFSL, Company

Exhibit 10: Operating leverage kicking in for the bank



Source: MOFSL, Company

Exhibit 11: RoA/RoE to improve to 1.2%/15.5% in FY22



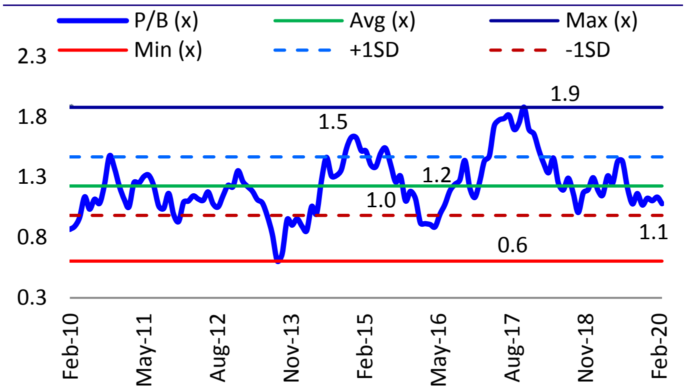
Source: MOFSL, Company

Valuation and view

- **Net stressed loans decline to 2.3% of loans:** FB has reported a sharp decline in net stressed loans (NNPA + standard restructured + net SRs) to ~2.3% of loans v/s 5.4% in FY16. Going ahead, the bank has no big-ticket (>INR1b) account in its watch-list. We thus expect corporate slippages to moderate sustainably. This will likely drive controlled credit costs and a consistent improvement in its coverage ratio.

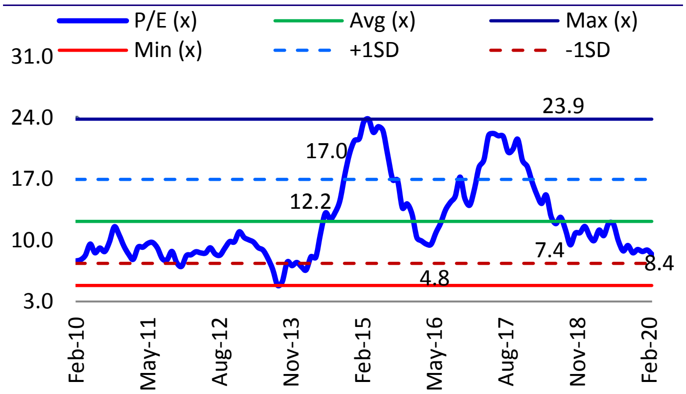
- **Strong liability franchise:** CASA + retail term deposits constitute ~91% of total deposits. The bank has lower cost of funds advantage compared to other mid-size banks and is focused on cross-selling liability products to corporate clients to garner salary accounts.
- **Lending toward better-rated corporates:** FB is taking a cautious approach in building the loan mix toward high-rated corporates and secured retail loans. The proportion of retail loans has improved to ~30% in 3QFY20 from 27.4% in FY18.
- **Buy with a target price of INR115:** In our view, FB is well placed to deliver RoA expansion led by moderating slippage trends, which will facilitate controlled credit costs. Margin prospects appear promising with the asset mix change toward high-yield segments. Also, the strong liability franchise will enable lower cost of funds. The bank will add branches in a calibrated manner and thus the C/I ratio is expected to improve to ~48% by FY22 from 50% in FY19. We slightly tweak our estimates and project earnings CAGR of 25% over FY20-22 with RoA/RoE of 1.2%/15.5% by FY22. We believe that the stock is trading at inexpensive valuations (1.1x Sep'21E ABV) and thus offers ample scope of re-rating. Maintain Buy with a TP of INR115 (1.4x for Sep'21E ABV).

Exhibit 12: One-year forward P/BV



Source: MOFSL, Company

Exhibit 13: One-year forward P/E



Source: MOFSL, Company

Exhibit 14: DuPont Analysis: We expect return ratios to remain modest

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Income	9.42	8.89	8.41	7.70	7.67	7.67	7.66	7.61
Interest Expense	6.40	6.01	5.45	4.87	4.87	4.95	4.88	4.83
Net Interest Income	**3.02**	**2.88**	**2.96**	**2.83**	**2.81**	**2.72**	**2.78**	**2.78**
Core Fee Income	0.66	0.68	0.70	0.73	0.75	0.85	0.92	0.98
Trading and others	0.46	0.25	0.35	0.19	0.15	0.13	0.12	0.10
Non-Interest income	**1.12**	**0.93**	**1.05**	**0.92**	**0.91**	0.98	1.04	1.08
Total Income	**4.14**	**3.81**	**4.01**	**3.74**	**3.71**	**3.70**	**3.82**	**3.85**
Operating Expenses	**2.07**	**2.17**	**2.14**	**1.94**	**1.86**	**1.90**	**1.88**	**1.83**
Employee cost	1.13	1.21	1.13	0.98	0.93	0.95	0.93	0.91
Others	0.94	0.96	1.01	0.95	0.93	0.95	0.94	0.92
Operating Profits	**2.07**	**1.63**	**1.87**	**1.81**	**1.86**	**1.80**	**1.94**	**2.02**
Core Operating Profits	**1.61**	**1.39**	**1.51**	**1.62**	**1.70**	**1.67**	**1.83**	**1.92**
Provisions	0.14	0.81	0.60	0.75	0.58	0.48	0.47	0.46
PBT	**1.93**	**0.83**	**1.27**	**1.06**	**1.28**	**1.32**	**1.48**	**1.56**
Tax	0.65	0.28	0.46	0.37	0.45	0.33	0.37	0.39
RoA	**1.28**	**0.55**	**0.81**	**0.69**	**0.84**	**0.99**	**1.11**	**1.17**
Leverage (x)	10.7	11.0	12.1	12.0	11.7	12.2	12.7	13.2
RoE	**13.7**	**6.0**	**9.8**	**8.3**	**9.8**	**12.1**	**14.1**	**15.5**

Source: MOFSL, Company

Financials and Valuations

Income Statement (INRm)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Income	74,195	77,482	86,774	97,529	114,190	130,766	150,623	174,691
Interest Expense	50,391	52,404	56,247	61,701	72,427	84,414	95,973	110,924
Net Interest Income	**23,804**	**25,077**	**30,526**	**35,828**	**41,763**	**46,351**	**54,650**	**63,767**
Growth (%)	6.8	5.3	21.7	17.4	16.6	11.0	17.9	16.7
Non-Interest Income	8,783	8,082	10,818	11,591	13,510	16,753	20,438	24,730
Total Income	**32,587**	**33,159**	**41,345**	**47,419**	**55,274**	**63,104**	**75,088**	**88,497**
Growth (%)	11.5	1.8	24.7	14.7	16.6	14.2	19.0	17.9
Operating Expenses	16,309	18,921	22,095	24,509	27,643	32,325	36,880	42,076
Pre Provision Profits	**16,278**	**14,238**	**19,249**	**22,910**	**27,631**	**30,778**	**38,208**	**46,421**
Growth (%)	10.0	-12.5	35.2	19.0	20.6	11.4	24.1	21.5
Core PPP	**13,721**	**12,963**	**16,163**	**20,521**	**25,347**	**28,495**	**35,924**	**44,137**
Growth (%)	3.6	-5.5	24.7	27.0	23.5	12.4	26.1	22.9
Provisions (excl. tax)	1,067	7,041	6,184	9,472	8,559	8,267	9,146	10,594
PBT	**15,210**	**7,197**	**13,065**	**13,439**	**19,073**	**22,512**	**29,061**	**35,827**
Tax	5,153	2,440	4,757	4,650	6,634	5,387	7,315	9,018
Tax Rate (%)	33.9	33.9	36.4	34.6	34.8	23.9	25.2	25.2
PAT	**10,057**	**4,757**	**8,308**	**8,789**	**12,439**	**17,125**	**21,747**	**26,809**
Growth (%)	19.9	-52.7	74.7	5.8	41.5	37.7	27.0	23.3

Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	3,427	3,438	3,448	3,944	3,970	3,970	3,970	3,970
Reserves & Surplus	73,955	77,474	84,108	118,158	128,760	142,056	159,017	180,083
Net Worth	**77,381**	**80,912**	**87,556**	**122,102**	**132,730**	**146,026**	**162,987**	**184,053**
Deposits	**708,250**	**791,717**	**976,646**	**1,119,925**	**1,349,543**	**1,551,975**	**1,815,811**	**2,142,657**
Growth (%)	18.6	11.8	23.4	14.7	20.5	15.0	17.0	18.0
of which CASA Deposits	**217,835**	**260,526**	**320,528**	**376,867**	**437,314**	**501,288**	**601,033**	**758,500**
Growth (%)	16.7	19.6	23.0	17.6	16.0	14.6	19.9	26.2
Borrowings	23,082	21,766	58,973	115,335	77,813	80,095	88,104	96,914
Other Liabilities & Prov.	19,791	19,905	26,594	25,777	33,313	39,975	47,171	55,662
Total Liabilities	**828,505**	**914,300**	**1,149,769**	**1,383,140**	**1,593,400**	**1,818,071**	**2,114,072**	**2,479,286**
Current Assets	47,800	54,198	74,522	92,034	100,668	114,245	129,466	143,333
Investments	205,688	222,175	281,961	307,811	318,245	356,434	406,335	463,222
Growth (%)	-14.7	8.0	26.9	9.2	3.4	12.0	14.0	14.0
Loans	**512,850**	**580,901**	**733,363**	**919,575**	**1,102,230**	**1,262,053**	**1,476,602**	**1,742,390**
Growth (%)	18.1	13.3	26.2	25.4	19.9	14.5	17.0	18.0
Fixed Assets	4,666	5,200	4,895	4,574	4,720	5,051	5,404	5,783
Other Assets	57,500	51,826	55,029	59,146	67,537	80,289	96,265	124,558
Total Assets	**828,505**	**914,300**	**1,149,769**	**1,383,140**	**1,593,400**	**1,818,071**	**2,114,072**	**2,479,286**

Asset Quality

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
GNPA	10,576	16,677	17,270	27,956	32,607	37,378	42,967	46,703
NNPA	3,733	9,500	9,412	15,520	16,262	20,056	22,352	24,059
GNPA Ratio	2.0	2.8	2.3	3.0	2.9	2.9	2.9	2.6
NNPA Ratio	0.7	1.6	1.3	1.7	1.5	1.6	1.5	1.4
Slippage Ratio	1.9	3.7	1.9	2.7	1.6	1.7	1.5	1.3
Credit Cost	0.5	1.3	0.9	1.1	0.8	0.65	0.62	0.60
PCR (Excl. Tech. write off)	64.7	43.0	45.5	44.5	50.1	46.3	48.0	48.5

Financials and Valuations

Ratios								
Y/E March	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**	**FY22E**
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	**10.4**	**10.0**	**9.3**	**8.4**	**8.4**	**8.4**	**8.4**	**8.4**
Avg. Yield on loans	11.5	10.4	10.0	9.1	9.0	8.9	8.9	8.9
Avg. Yield on Investments	7.4	8.2	7.1	6.6	6.6	6.7	6.7	6.6
Avg. Cost-Int. Bear. Liab.	**7.3**	**6.8**	**6.1**	**5.4**	**5.4**	**5.5**	**5.4**	**5.4**
Avg. Cost of Deposits	7.1	6.7	6.1	5.5	5.5	5.6	5.5	5.4
Avg. Cost of Borrowings	10.3	8.0	5.5	5.1	5.2	4.6	4.5	4.7
Interest Spread	**3.2**	**3.2**	**3.2**	**3.0**	**2.9**	**2.9**	**3.0**	**3.0**
Net Interest Margin	**3.3**	**3.2**	**3.3**	**3.1**	**3.1**	**3.0**	**3.1**	**3.1**
Capitalization Ratios (%)								
CAR	15.5	13.9	12.4	14.9	14.4	13.4	12.8	12.0
Tier I	14.8	13.4	11.8	14.4	13.7	12.7	12.3	11.5
Tier II	0.7	0.6	0.6	0.5	0.8	0.6	0.5	0.4
Business and Efficiency Ratios (%)								
Loans/Deposit Ratio	72.4	73.4	75.1	82.1	81.7	81.3	81.3	81.3
CASA Ratio	30.8	32.9	32.8	33.7	32.4	32.3	33.1	35.4
Cost/Assets	2.0	2.1	1.9	1.8	1.7	1.8	1.7	1.7
Cost/Total Income	50.0	57.1	53.4	51.7	50.0	51.2	49.1	47.5
Cost/Core Income	54.3	59.3	57.8	54.4	52.2	53.1	50.7	48.8
Int. Expense/Int. Income	67.9	67.6	64.8	63.3	63.4	64.6	63.7	63.5
Fee Income/Net Income	15.8	17.8	17.4	19.4	20.3	22.9	24.2	25.4
Non Int. Inc./Net Income	27.0	24.4	26.2	24.4	24.4	26.5	27.2	27.9
Emp. Cost/Op. Exp.	54.7	55.6	52.7	50.7	49.8	49.9	49.8	49.8
Investment/Deposit Ratio	29.0	28.1	28.9	27.5	23.6	23.0	22.4	21.6
Valuation								
RoE	13.7	6.0	9.9	8.3	9.8	12.3	14.1	15.5
RoA	1.3	0.5	0.8	0.7	0.8	1.0	1.11	1.17
RoRWA	2.0	0.8	1.1	1.0	1.3	1.5	1.7	1.7
Book Value (INR)	45.2	47.1	50.8	61.9	66.9	73.5	82.1	92.7
Growth (%)	11.2	4.2	7.9	21.9	8.0	10.0	11.6	12.9
Price-BV (x)			**1.7**	**1.4**	**1.3**	**1.2**	**1.0**	**0.9**
Adjusted BV (INR)	43.7	43.5	47.2	54.4	59.1	64.2	71.6	81.3
Price-ABV (x)			**1.8**	**1.6**	**1.4**	**1.3**	**1.2**	**1.0**
EPS (INR)	5.9	2.8	4.8	4.8	6.3	8.6	11.0	13.5
Growth (%)	19.7	-52.9	74.1	-1.3	32.2	37.2	27.0	23.3
Price-Earnings (x)			**17.7**	**17.9**	**13.5**	**9.9**	**7.8**	**6.3**
Dividend Per Share (INR)	1.1	0.7	1.1	1.1	1.2	1.9	2.4	2.9
Dividend Yield (%)			**1.3**	**1.3**	**1.4**	**2.3**	**2.8**	**3.4**

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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