

Indian Markets	CMP	% chg 1d	% chg 3m	% chg 6m	% chg ytd
Nifty	9,630	0.0	6.0	20.6	17.6
Sensex	31,291	0.0	6.7	20.2	17.5
BSE Small Cap	15,609	(0.6)	11.3	32.3	29.6
Midcap	14,763	(0.6)	6.6	25.5	22.7
INR/USD	64.60	(0.1)	(1.3)	(5.0)	5.2
Developed/Emerging markets					
Dow Jones	21,397	(0.1)	3.6	7.3	8.3
S&P 500	2,435	0.0	3.8	7.6	8.7
Nasdaq	5,780	0.0	7.9	17.0	18.8
Nikkei	20,105	0.0	5.3	3.5	5.2
Hang Seng	25,703	0.1	5.7	19.1	16.8
Bovespa	61,272	0.8	(3.6)	5.8	1.7
DAX	12,794	0.2	6.3	11.7	11.4
FTSE	7,439	(0.1)	1.3	5.2	4.2
SGX Nifty	9,636	0.0	5.9	20.5	17.7

Top gainers			Top losers		
Underlying Security	CMP	% chg	Underlying security	CMP	% chg
Grasim	1,172	3.5	Just Dial	393	(3.9)
GPPL	150	3.2	Persistent Sys	657	(3.7)
BEML	1,547	2.4	HPCL	512	(3.3)
Redington	133	2.0	Hexaware	252	(2.9)
Ambuja Cem.	245	1.9	Exide	219	(2.8)

Recent eco. data	Actual	Cons.	Upcoming eco. data	Cons.	Previous
India CPI	2.2	2.6	US Flash Mfg PMI	53.1	52.7
US Building Permits	1.17M	1.25M	Germany Flash Mfg PMI	59.1	59.5
US CPI	(0.1)	0.2	US New Home Sales	599K	569K
Japan Policy Rate	(0.1)	(0.1)	France Flash Service PMI	57.1	57.2
US Retail Sales	(0.3)	0.1	US HPI	0.4	0.6

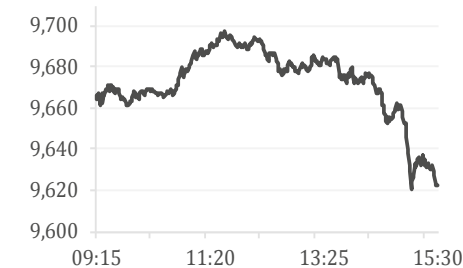
FIIs & DIIs cash activity (Rs cr)			
	Previous day	MTD	YTD
FII Equity	193	(1,502)	23,964
DII Equity	455	3,817	19,570
FII Debt	826	22,302	90,603
DII Debt	3,103	21,260	196,591

## Floating Friday! Lighter ahead of long weekend

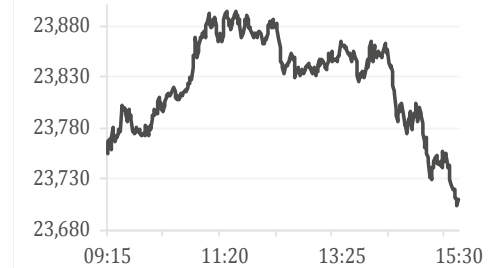
*Let go of the heavy pains of yesterday and you will feel lighter to float on top with your values. Arise and float! - Ayivor*

Investors are likely to adopt a wait and watch approach ahead of the long weekend. The indices on Thursday had their moments of glory as they flirted near record highs but pared gains to end flat. But for banking, most other BSE sectoral indices were subdued at close. The outlook is a flat start. The minutes from RBI's latest monetary policy meeting reveals a less hawkish tone as it awaits data to decide on lowering interest rates. RBI Governor Urjit Patel underlined the need for resolution of stressed assets of banks. Indo-US relations will assume centre-stage as Prime Minister Narendra Modi's first meeting with US President Donald Trump takes place on Monday.

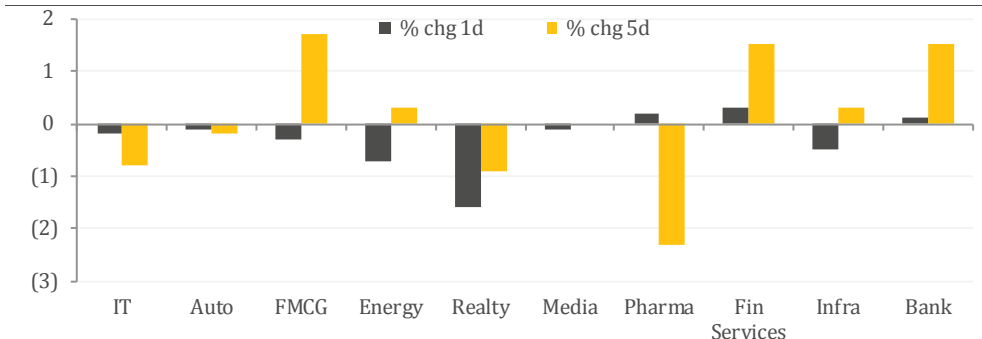
Nifty intra-day movement



Banknifty intra-day movement



Sectoral movement



### Corporate News

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- **SBI** to take three steel companies to bankruptcy court. (BS)
- **RIL**, BP withdraw gas price arbitration against government. (ET)
- EPFO ties up with **Hudco** to enable Rs. 2.7lakh housing subsidy to members. (BS)
- **Mindtree** may consider share buyback. (BS)
- Rosneft closes \$12.9-b deal with **Essar Oil**. (Mint)
- **Glenmark Pharma's** overactive bladder drug gets USFDA nod. (Mint)

### Economy News

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- Resolve 55 NPA accounts in six months RBI to banks. (BS)
- Government loosens norms for auditor rotation at unlisted companies. (BS)
- SEBI puts 25% public float matter back in Govt's court. (Mint)
- GST to lower overall tax burden over time, says RBI governor. (ET)

### Upcoming Events

Jun 23: Japan Flash Manufacturing PMI, French Flash Manufacturing PMI, French Flash Services PMI, German Flash Manufacturing PMI, German Flash Services PMI, Eurozone Flash Manufacturing PMI, Eurozone Flash Services PMI, Canada CPI, Canada Common CPI, Canada Median CPI, Canada Trimmed CPI, Canada Core CPI, Belgian NBB Business Climate, US Flash Manufacturing PMI, US Flash Services PMI, US New Home Sales

# AU Small Finance Bank - Subscribe



## An agile SFB on a strong footing

AU Small Finance Bank (AU SFB), operational since April 2017, seems confident of excelling as a banking franchise in the coming years. Much of this confidence stems from its long vintage of being a fast growing, diversified and a highly profitable asset financing NBFC. Having contained NPLs and credit loss at remarkably low levels over the years, AU has demonstrated an impressive credit underwriting ability. Having made requisite investments in the areas of people, technology, operations, physical/digital infrastructure, liability and fee products prior to the SFB launch, its platform is enriched by deep customer relationships, grasp over local milieu, wide regional presence and healthy brand connect for quick-scale up of its liability franchise. An aggressive new branch roll-out plan in the current year would further boost AU's growth plans.

## Strong long-term growth & profitability; Subscribe

In its earlier avatar of NBFC, AU grew its gross loan assets and earnings at a robust CAGR of 34% and 65% respectively over FY14-17. The brisk AUM growth was complemented by its business diversity, both in terms of products and geographies. Profitability grew by leaps and bounds, notwithstanding persistent investments on the back of moderation in funding cost and firm control over product pricing. In the initial phase post SFB launch, growth and profitability would be restricted; but the longer run prospects seem bright. Conversion into SFB will augment earnings diversity and stability. The IPO of 53.4mn shares is a 100% offer for sale; promoters are divesting 9mn shares post which would bring down their holding to ~33%. At the upper end of the price band of Rs355-358, the company is being valued at 5.3x FY17 P/ABV. In our view, this valuation, more than being palatable, offers a material upside post listing. We recommend Subscribe.

Analyst: Rajiv Mehta, Franklin Moraes

**Issue Opens:** 28-June-17  
**Issue Closes:** 30-June-17  
**Price Band:** Rs.355-358

Issue details				
Face value (Rs)	10	Post-issue M-cap	Rs. 100.9-101.7bn	
Fresh Issue	-	Issue Size	Rs.19.1bn	
Offer for Sale (up to)	53.4mn shares	Issue type	100% Book building	
Price Band	Rs.355-358	<b>Share reservation (%)</b>		
<b>Shareholding pattern (%)</b>				
	<b>Pre IPO</b>	<b>Post IPO</b>		
Promoter	36.0	32.9	QIB	50.0
Public	64.0	67.1	Non institutional	15.0
			Retail	35.0
<b>Issue Manager</b>			<b>Company management</b>	
	ICICI Securities, HDFC Bank,		Sanjay Agarwal	MD & CEO
BRLM	Motilal Oswal Inv. Advisors, Citigroup Global Markets		Deepak Jain	CFO
Registrar	Link Intime India Pvt. Ltd		Uttam Tibrewal	Whole-time Director
Listing	NSE, BSE			Grp Head – Marketing, Comm., Infra & Admin
			Manoj Tibrewal	

Figure 1: Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15	FY16	FY17
Total op. income	2,838	4,074	6,567	9,302
yoy growth (%)	31.4	43.6	61.2	41.6
Op profit (pre-prov)	1,704	2,560	4,029	5,813
Net profit*	725	1,395	2,472	8,427
yoy growth (%)	4.6	92.2	77.2	240.9
EPS (Rs)*	3.0	5.3	9.3	12.0
Adj. BVPS (Rs)	24.0	28.6	37.0	70.9
P/E (x)*	119.9	67.4	38.3	29.9
P/adj. BV (x)	17.5	13.6	10.4	5.3
ROE (%)*	14.0	20.4	28.0	21.7
ROA (%)*	2.4	4.0	4.8	3.4
CAR (%)	18.8	17.3	16.9	23.2

Source: RHP, IIFL Research

\*Excluding extraordinary gain on sale of shares in subsidiary, FY17 PAT would have been Rs3.26bn. Hence ratios are accordingly adjusted.

## About the company

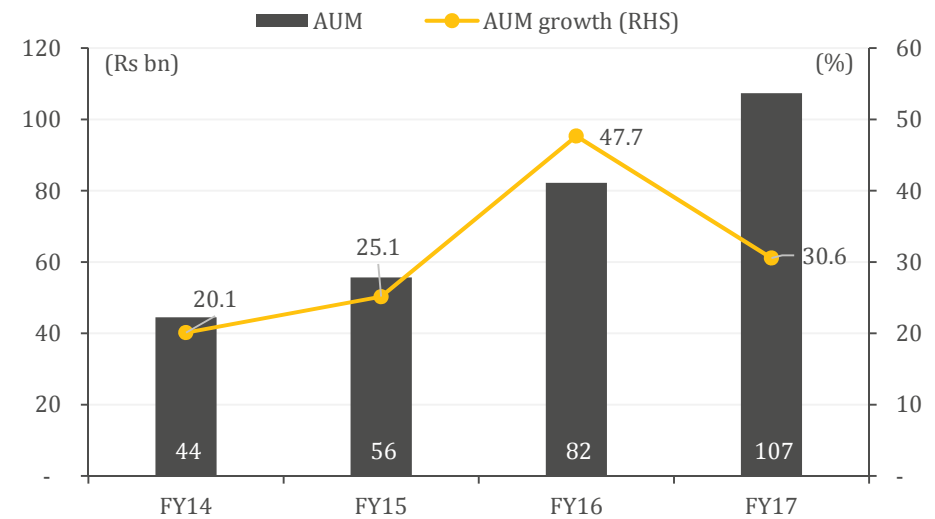
AU is a small finance bank (SFB) that has recently transitioned from a retail focused NBFC catering primarily to the low and middle-income individuals and businesses with limited or no access to formal banking and finance channels. The company received a RBI license to set up an SFB on December 20, 2016 and commenced operations on April 19, 2017. It's the only NBFC categorized as an asset finance company to obtain an SFB license.

AU SFB operates in three business verticals; Vehicle finance, MSME loans and SME loans. Besides these mainstream products, it also offers working capital facilities, gold loans, agriculture related term loans, kisan credit cards for farmers and loans against securities. It intends to commence offering unsecured business loans and housing finance loans during the current year. The liability product offerings include current accounts, savings accounts, term deposits, recurring deposits and collections and payments solutions for MSME and SME customers.

AU also intends to offer payment wallets and customized prepaid instruments in the current fiscal. The management plans to make a foray in the sale of third party investment products such as mutual funds, insurance and risk management products, as well as offer financial advisory and education programs for individual and new entrepreneurs, subject to receipt of requisite approvals from regulatory authorities.

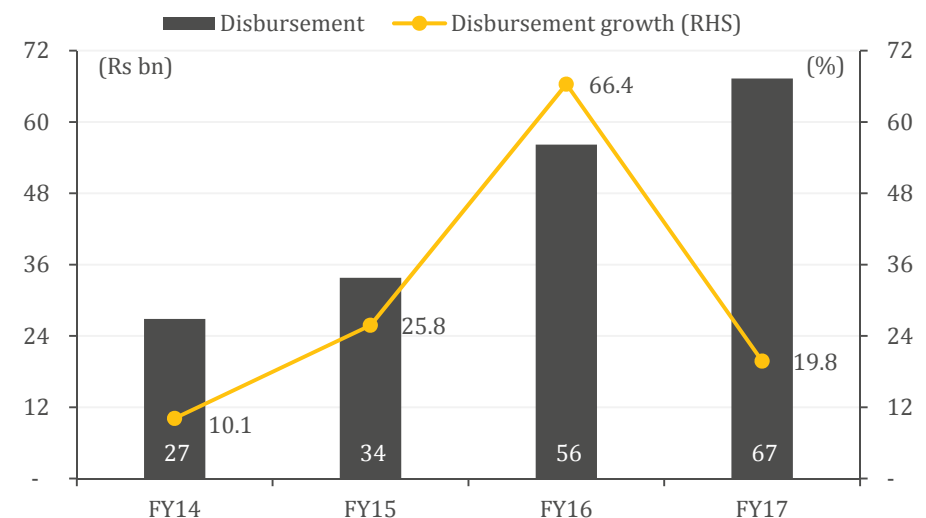
Transitioning to an SFB has offered significant growth potential, and AU aims to be a retail focused banking franchise offering integrated and tailored solutions to customers. As of May 31, 2017, AU SFB conducted its operations through 269 branches, 121 asset centers, one central processing center and 10 offices. It plans to open additional 162 branches and seven central processing centers in the current financial year.

**Figure 2: AUM has grown at brisk pace**



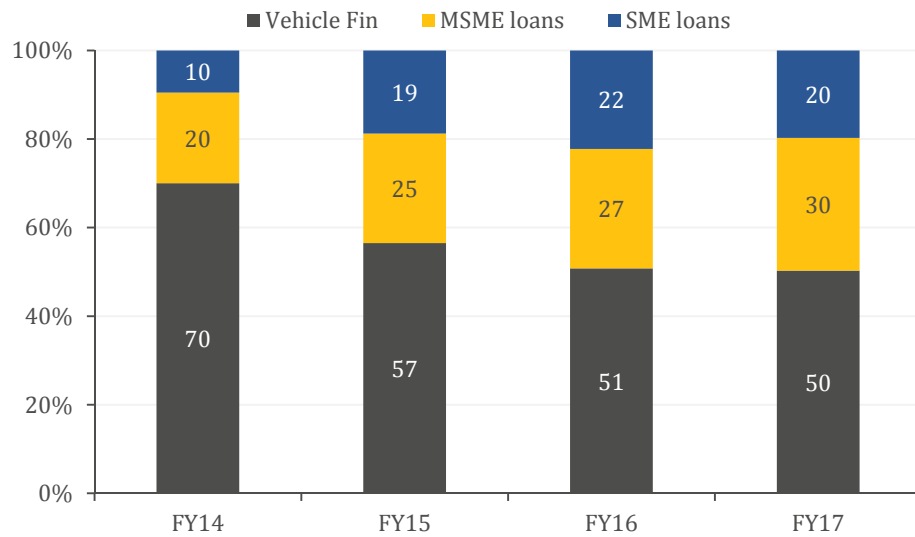
Source: RHP, IIFL Research

**Figure 3: Strong underlying traction in disbursements**



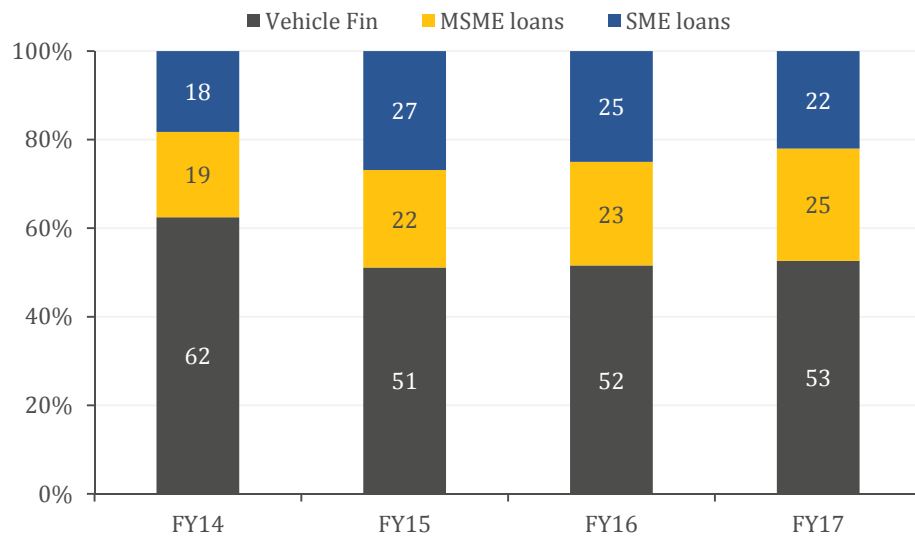
Source: RHP, IIFL Research

**Figure 4: AUM Mix - Shift away from Vehicle Finance**



Source: RHP, IIFL Research

**Figure 5: Disbursement Mix - MSME and SME loans gained prominence**

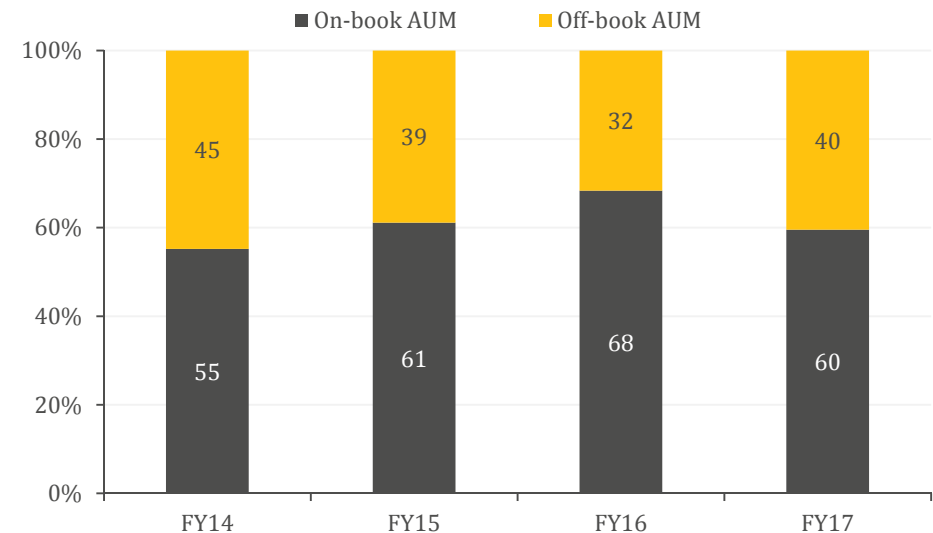


Source: RHP, IIFL Research

As an NBFC, AU adopted a strategy of contiguous expansion across regions and as of March 31, 2017, it had 301 branches spread across 10 states and 1 union territory. A bulk of the network was in the states of Rajasthan, Gujarat, Maharashtra and Madhya Pradesh. The FY17 ending AUM of Rs107.3bn was spread across 280,349 active loan accounts and the employee base was 8,515.

AU's journey began in 1996 in Jaipur, Rajasthan. It was registered as an NBFC with the RBI in 2000. In 2005, it became a commercial associate of HDFC Bank for originating and servicing vehicle loans and such relationship assisted in the implementation of various processes and systems. The company continued expanding the scale of business with a vision to cater to unserved and underserved customer segments. It expanded product portfolio to include MSME loans in 2007, housing finance in 2011 (a business which they have since sold) and SME loans in 2012, to cater to the evolving needs of customers.

**Figure 6: Off-book AUM is a substantial portion**



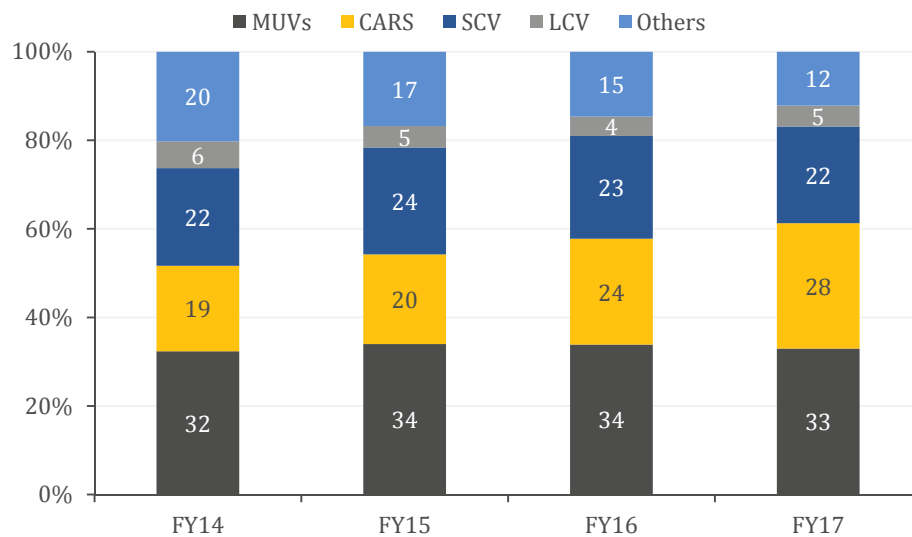
Source: RHP, IIFL Research

## Asset products

### Vehicle finance loans (50% of AUM)

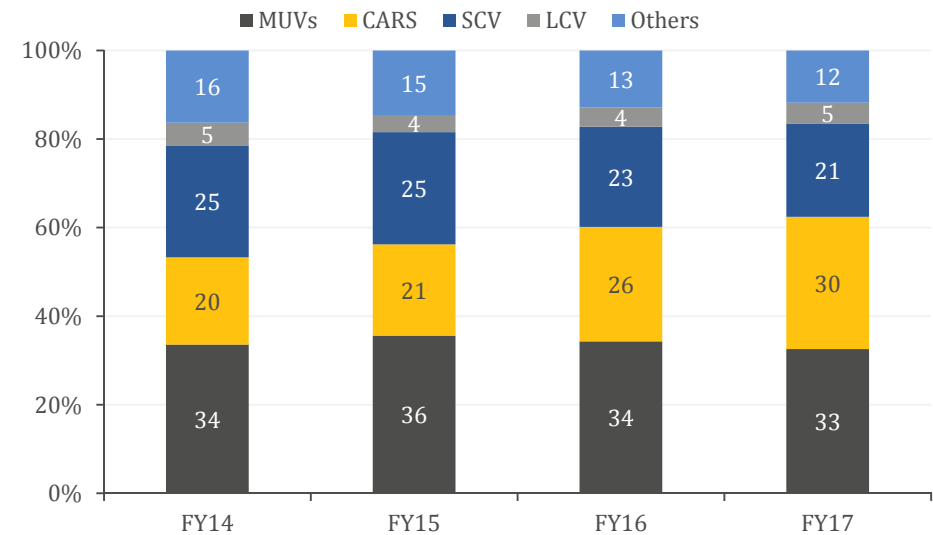
AU offers loans for purchase of new and pre-owned vehicles, and for refinancing of vehicles primarily used for revenue generating activities. It funds several categories of vehicles including multi-utility vehicles (MUVs), CARS, small commercial vehicles (SCVs), light commercial Vehicles (LCVs), medium and heavy commercial vehicles (M&HCVs), tractors, three-wheelers, two-wheelers and construction equipment. This is the oldest business of AU commenced in 1996 and accounts for 50.3% of AUM as of March 31, 2017. This portfolio has registered a CAGR of 20% over FY14-17. The loans are offered for tenure of up to five years and the average ticket size (ATS) has been hovering around Rs3.5 lakhs.

**Figure 7: Portfolio Mix - MUV/Car/SCV financing dominant products**



Source: RHP, IIFL Research

**Figure 8: Disbursement Mix - Car financing share has increased**



Source: RHP, IIFL Research

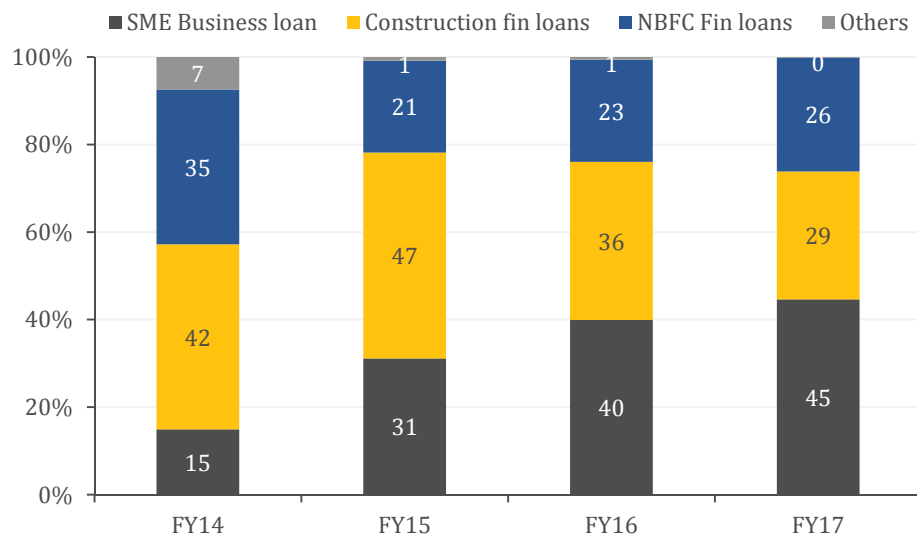
### MSME loans (30% of AUM)

MSME loans are primarily extended to micro and small manufacturing firms, service enterprises and traders for business expansion, working capital and the purchase of equipment. As of March 31, 2017, the portfolio stood at Rs32.2bn constituting about 30% of the overall AUM of AU. It has grown at a brisk pace of 52.3% pa during the preceding three years. Loan ATS is Rs10.8 lakhs and tenures offered are up to 12 years. As of FY17, MSME loan were offered from 187 NBFC branches. These loans are secured by immovable property.

## SME loans (20% of AUM)

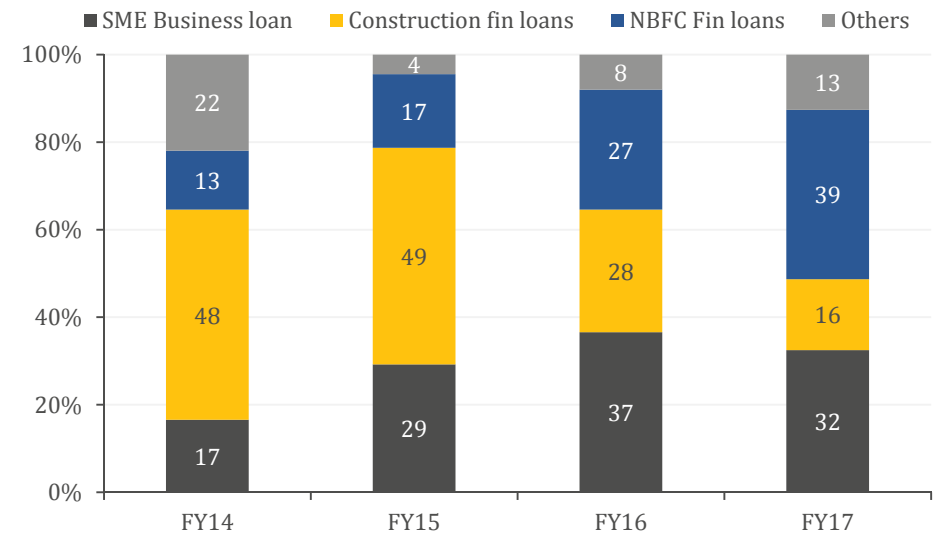
In this business, AU extends loans to several types of small and medium sized businesses including HFCs and MFIs. Loan tenures are up to 15 years and ATS is around Rs20mn. SME loans were introduced in 2012. As of March 31, 2017, the portfolio stood at Rs21.2bn constituting about 20% of the overall AUM. It has grown at a significant pace of 71.2% pa during FY14-17. SME loans are offered through a centralized team in Jaipur and sales personnel at select branches. These loans are categorized into business loans, construction finance loans and NBFC finance loans. All loans are secured by immovable property or receivables.

**Figure 9: Portfolio Mix - A marked shift towards Business Loans**



Source: RHP, IIFL Research

**Figure 10: Disbursement Mix - Construction finance on the decline**



Source: RHP, IIFL Research

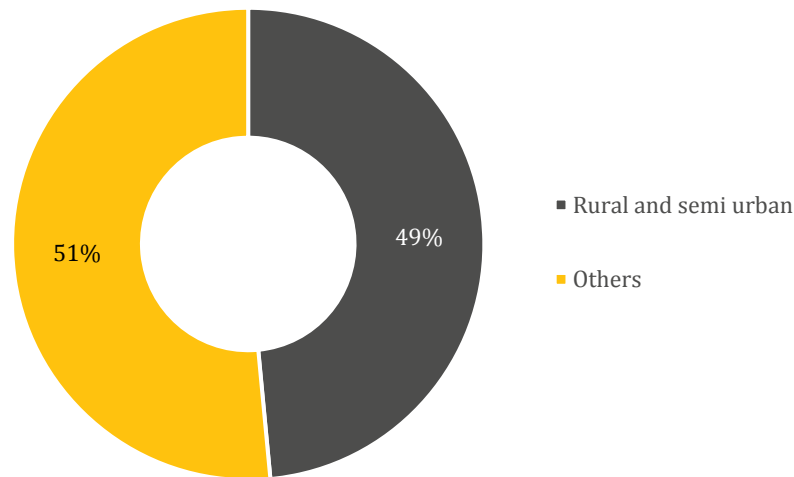
## Key franchise strengths

### Significant presence in rural and semi-urban markets with focus on low and middle income customers

AU has over 20 years of operating experience in rural and semi-urban markets of India and as of FY17, 146 of the 301 NBFC branches were located in such markets. Adoption of a strategy of contiguous expansion across regions has enabled the company to effectively increase their customer base in the 10 states and one union territory in which it operates. A large segment of India's rural and semi-urban population is currently unserved and underserved by formal financial institutions. Over the years, the company's focus has been on offering loans to customers in such markets, particularly those without a credit history, that offer significant growth opportunities and customer loyalty.

AU's understanding of the local characteristics of these markets and customers has allowed it to address the unique needs of low and middle income customers and assist in penetrating deeper into such markets. The reach of branches allows for servicing the existing customers and attracting new customers as a result of personal relationships cultivated through proximity and frequent interaction by employees. Through its decentralized model, it has optimized turnaround times for customers while managing credit requirements and associated risks.

**Figure 11: Demographic break-up of the branch network**



Source: RHP, IIFL Research

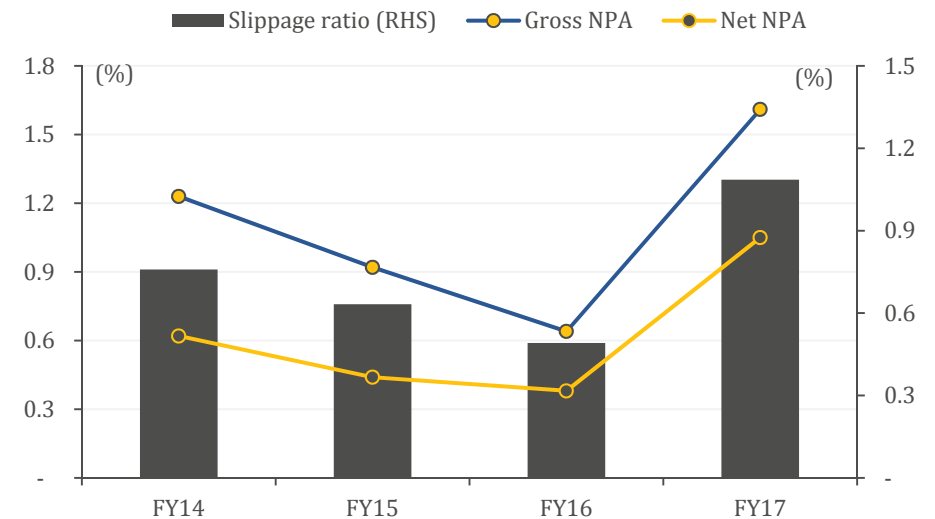
### Robust credit assessment and risk management

AU SFB has a robust and comprehensive credit assessment and risk management framework to identify, monitor and manage inherent risks. Credit management is crucial given that significant number of customers are from the unserved or underserved financial segment and primarily first-time purchasers of financial products. In order to mitigate risks, separate credit teams have been set up for key business lines of vehicle

finance, MSME loans and SME loans. The credit teams, through in-house field investigation officers, conduct an independent verification of customers and evaluate their business and financing needs, and analyze their ability to repay loans.

In vehicle finance and MSME loans business, the company is focused on disbursing loans primarily towards revenue generating assets, which generally results in lower risk. The collection management system includes a collection control room that centrally manages allocations among collection executives and analytics are used for the optimum allocation of cases to the collections team. A specialized collections team manages cases where collections are overdue for a certain period. The effective credit risk management is reflected in portfolio quality indicators such as high repayment rates, and low rates of GNPA and NNPA across business and economic cycles. As of FY17, GNPA's accounted for 1.61% of AUM, while NNPA's accounted for 1.05% of AIM.

**Figure 12: Stable asset quality performance over the years**



Source: RHP, IIFL Research

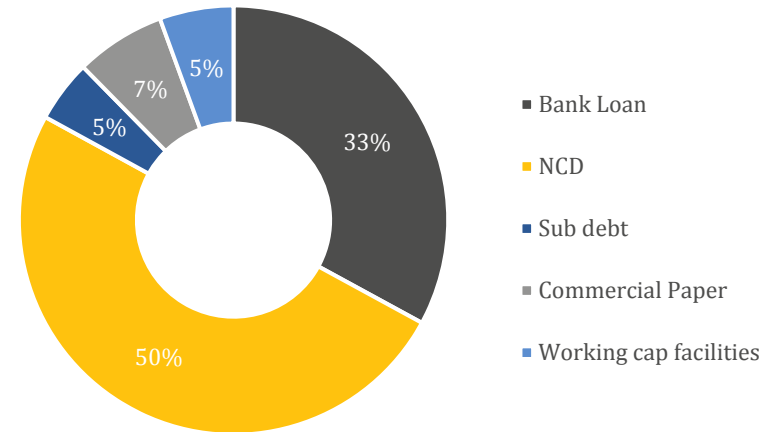


## Access to diversified sources of funding; high credit rating

Prior to the commencement of SFB operations, the company's sources of liquidity included term loans and working capital facilities, proceeds from loans assigned and securitized, proceeds from the issuance of NCDs and CPs and subordinated debt borrowings from banks, MFs, insurance companies and other domestic and foreign FIs. As of FY17, borrowing mix comprised 50.0% of NCDs, 32.9% of term loans, 6.8% of CPs, 4.7% of subordinated debt borrowings, and 5.6% of working capital facilities. The average cost of borrowings has reduced from 12.6% in FY13 to 10.1% in FY17 as a result of improvement in credit ratings. AU enjoys a long term credit rating of A+ (Stable) from the top four rating agencies.

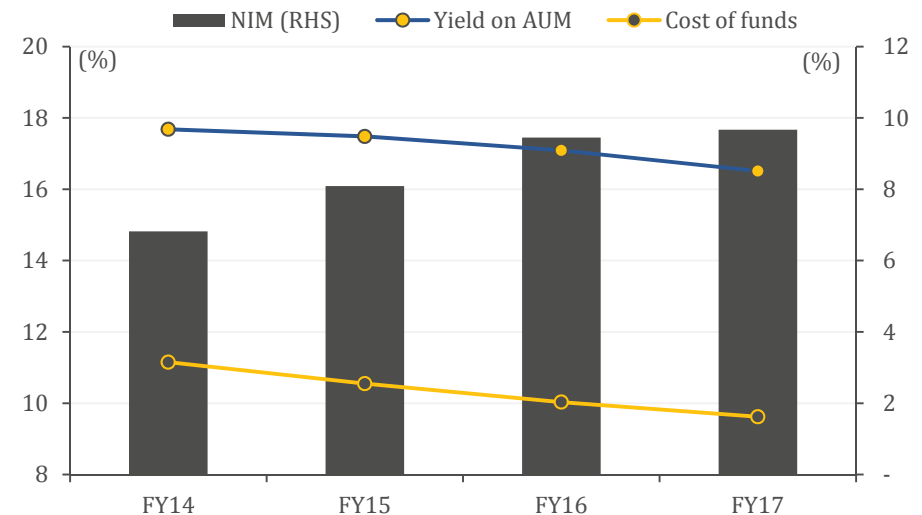
As an SFB, AU will be able to access funds including savings accounts, current accounts, term deposits and recurring deposits. It will also be able to raise funds from LAF and market stabilization fund of the RBI, refinance facilities from FIs, capital market borrowings such as infrastructure bonds, tier-II bonds and perpetual bonds. It will continue to securitize and assign loans, which qualify as priority sector lending, as well as non-priority sector loans through securitization or direct assignment to banks, FIs and mutual funds. Money market borrowings, inter-bank borrowings and issuance of CDs will only be permitted once AU becomes a scheduled commercial bank which involves a time lag.

Figure 13: Borrowing mix - March 2017



Source: RHP, IIFL Research

Figure 14: NIMs lifted up by moderating funding cost



Source: RHP, IIFL Research

## Key strategies for growing SFB operations

### Leveraging existing capabilities and customer base

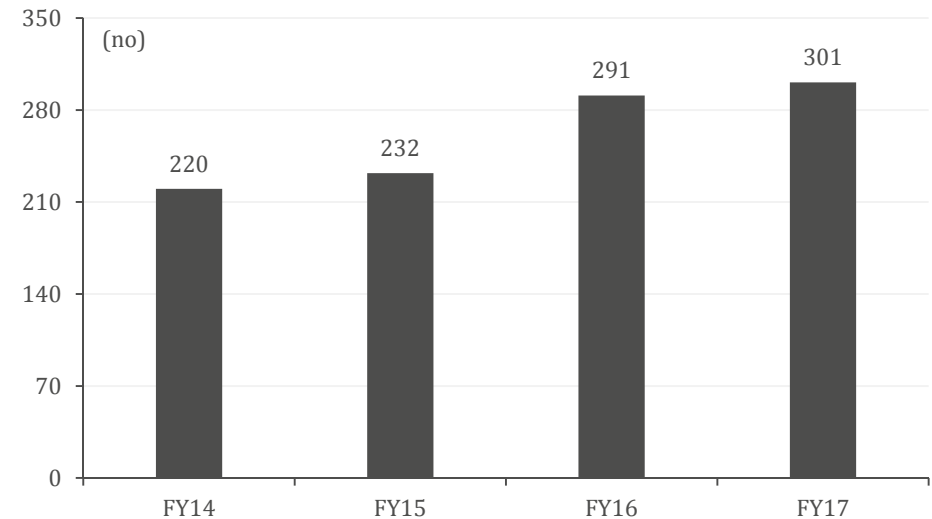
AU SFB intends to strategically expand its operations by offering a diverse suite of banking products and services at its branches. It has developed and set up additional branch architecture, improved the technology backbone in a phased manner and established consumer branch footprint in the geographical regions. It will continue to focus on its go-to-market approach to increase its customer base, implement customer reach programs and will encourage all its NBFC customers to open bank accounts with them. AU SFB believes that transition to an SFB offers it significant growth potential to become a retail focused, preferred trusted SFB that offers integrated and tailored solutions to customers.

### Growing branch network

While management has traditionally focused on the states Rajasthan, Gujarat and Maharashtra, AU has also grown its operations in relatively newer contiguous markets such as Madhya Pradesh, Punjab, Haryana, NCR and Himachal Pradesh in the recent years. As an SFB, AU intends to expand the branch network to drive greater and deeper penetration in the Western and Northern states of India retaining the underlying focus on the financially underpenetrated low and middle income individuals and businesses.

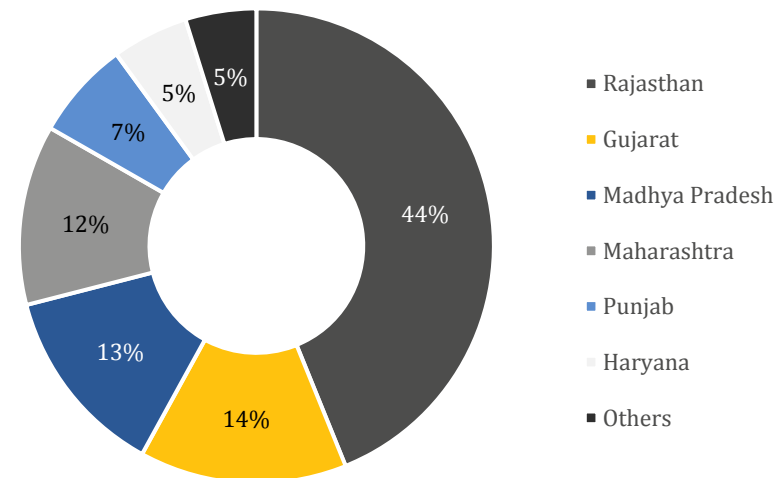
The NBFC branch infrastructure and cost efficient hub-and-spoke model has allowed AU to commence SFB operations promptly. It has converted 121 NBFC branches into asset centers where only vehicle finance, MSME and SME loans are being offered. In addition to the existing branches and asset centers, the management plans to gradually open 162 branches during FY18 to reach 431 branches and 121 asset centers. This proposed branch expansion plan also includes opening 23 branches in Tier-1 centers beyond the 10 states and one union territory where it is currently present. The 431 branches will comprise 164 branches in Tier-1 centers and 267 branches in Tier 2 to Tier 6 centers. Of the 431 branches, 119 branches are expected to be located in unbanked rural centers.

Figure 15: Steady increase in the number of branches



Source: RHP, IIFL Research

Figure 16: Top 3 states occupy 71% share of branch network



Source: RHP, IIFL Research

## **Comprehensive suite of banking services**

In 2011, AU had set up a housing finance subsidiary to offer housing loans. In June 2016, it divested the entire ~90% stake for ~Rs8.3bn. The prior experience in the housing finance business will assist AU in developing its home loans business in the SFB, while experience in current business lines will assist in developing the liability business and introduce new products and services to meet the customer's evolving needs. The new product offerings would enable it to supplement the existing sources of liquidity.

## **Leveraging technology investments**

AU has already upgraded, and would continue to upgrade its technology systems with automated, digitized and other technology-enabled platforms and tools, to strengthen banking and financing initiatives and derive greater operational, cost and management efficiencies. It has entered into agreements with several IT companies to assist in setting up its IT infrastructure for SFB operations. It has entered into a master services agreement with Accenture and has implemented certain IT systems including a core banking solution, internet and mobile banking solutions, enterprise mobile applications and enterprise risk management systems. It has deployed the Oracle Flexcube Core Banking Solution (Flexcube CBS) for various banking functions, which will assist in handling large transaction volumes. Further, it commenced utilizing the loan management system capabilities of Flexcube CBS and have migrated data from previous loan management system.

## **Enhancing brand presence**

AU seeks to enhance its brand to build its presence in the banking sector to develop new customer and industry relationships. In this regard, it is exploring to enter into strategic as well as service-level collaborations for customer aggregation and servicing, to take the SFB to the customer and thereby build and expand its network of branches and increase penetration of the non-institutional depositor and customer base. It seeks to build its brand by continuing to engage with existing and potential

customers through customer literacy programs, sponsor popular events in the regions it operates and place advertisements in newspapers, on the radio and in other advertising media. AU has recently launched its new logo for SFB operations and will continue to invest in various brand enhancement initiatives.

## **Key Risks**

### **Concentrated operations in Western India**

Of the 269 branches and 121 asset centers as of May 31, 2017, 189 branches and 89 asset centers were located in the states of Rajasthan, Gujarat and Maharashtra. These states combined constituted 79.3% of AUM at the end of FY17, of which Rajasthan alone accounted 53.8%. Consequently, any significant social, political or economic disruption, or natural calamities or civil disruptions in the Western region, could impact business operations of the bank.

### **Liability scale-up critical to brisk growth sustenance**

As an SFB, AU can't raise secured borrowings from banks and financial institutions or from the issuance of secured NCDs. As of March 31, 2017, aggregate secured borrowings stood at Rs52.3bn, representing 74% of the total borrowings. Further, the mandate of maintaining 75% priority sector loans may limit securitizations and assignments in the future. Additionally, money market and inter-bank borrowings would only be available once AU becomes a scheduled commercial bank (SCB), which requires additional time post commencement of SFB operations. Consequently, ramping-up of the deposit base will be one of the most critical success factor for AU. However, aided by the large existing customer franchise, well positioned and priced liability products, customer experience enriching digital investments, strong customer acquisition engine and planned investment in physical infrastructure, the SFB should be able to scale-up its liability franchise successfully in the coming years.

## Financials

**Figure 17: Balance sheet**

Y/e 31 Mar (Rs m)	FY14	FY15	FY16	FY17
Equity Capital	430	441	441	2,843
Reserves	5,548	7,224	9,566	17,153
<b>Shareholder's funds</b>	<b>5,978</b>	<b>7,665</b>	<b>10,007</b>	<b>19,996</b>
Long-term borrowings	12,735	15,796	28,109	49,367
Deferred tax liabilities	0	0	0	0
Other Long-term liab.	150	431	567	591
Long-term provisions	225	264	322	629
<b>Total Non-current liab.</b>	<b>13,109</b>	<b>16,490</b>	<b>28,998</b>	<b>50,587</b>
Short Term Borrowings	4,685	9,726	10,066	9,940
Trade payables	0	0	0	0
Other current liabilities	5,738	5,747	13,445	17,580
Short term provisions	77	171	215	73
<b>Total Current liab.</b>	<b>10,499</b>	<b>15,644</b>	<b>23,725</b>	<b>27,594</b>
<b>Total Equities and Liab</b>	<b>29,586</b>	<b>39,799</b>	<b>62,730</b>	<b>98,176</b>
Fixed Assets	169	190	246	2,758
Non-curr. investments	874	1,127	593	6,152
Deferred tax assets (Net)	306	364	211	38
Receivables under fin activity	14,914	22,482	37,805	45,178
L T loans and advances	162	118	89	368
Other non-curr assets	45	54	64	10
<b>Total Non-curr. assets</b>	<b>16,470</b>	<b>24,334</b>	<b>39,008</b>	<b>54,504</b>
Current investments	262	272	1,722	15,351
Cash and cash eq.	2,034	2,029	1,234	6,245
Receivables under fin activity	10,253	12,750	20,089	20,902
Short-term loans and advances	331	139	210	536
Other current assets	236	276	466	639
<b>Total current assets</b>	<b>13,116</b>	<b>15,465</b>	<b>23,722</b>	<b>43,672</b>
<b>Total Assets</b>	<b>29,586</b>	<b>39,799</b>	<b>62,730</b>	<b>98,176</b>

**Figure 18: Income statement**

Y/e 31 Mar (Rs m)	FY14	FY15	FY16	FY17
Income from Operations	5,655	6,870	10,469	14,170
Interest expense	(2,876)	(2,820)	(3,953)	(5,003)
<b>Net interest income</b>	<b>2,779</b>	<b>4,050</b>	<b>6,517</b>	<b>9,167</b>
Non-interest income	58	24	50	135
<b>Total op income</b>	<b>2,838</b>	<b>4,074</b>	<b>6,567</b>	<b>9,302</b>
Total op expenses	(1,134)	(1,515)	(2,538)	(3,489)
<b>Op profit (pre-prov)</b>	<b>1,704</b>	<b>2,560</b>	<b>4,029</b>	<b>5,813</b>
Provisions	(607)	(487)	(257)	(767)
Exceptional Items	0	0	0	6,703
<b>Profit before tax</b>	<b>1,097</b>	<b>2,073</b>	<b>3,772</b>	<b>11,749</b>
Taxes	(371)	(679)	(1,301)	(3,322)
<b>Net profit*</b>	<b>725</b>	<b>1,395</b>	<b>2,472</b>	<b>8,427</b>

\*excluding extraordinary gain on sale of shares in subsidiary, FY17 PAT would have been Rs3.26bn

**Figure 19: Ratio analysis**

Y/e 31 Mar (Rs m)	FY14	FY15	FY16	FY17
<b>Growth matrix (%)</b>				
Net interest income	30.2	45.7	60.9	40.7
Total op income	31.4	43.6	61.2	41.6
Op profit (pre-provision)	42.6	50.2	57.4	44.3
Net profit*	4.6	92.2	77.2	31.8
Advances	35.0	38.3	64.0	15.1
Borrowings	(18.6)	46.5	49.6	55.4
Total assets	(5.0)	34.5	57.6	56.5
<b>Profitability Ratios (%)</b>				
NIM	6.8	8.1	9.5	9.7
Non-int inc/Total inc	2.0	0.6	0.8	1.5
Return on Avg Equity*	14.0	20.4	28.0	21.7
Return on Avg Assets*	2.4	4.0	4.8	3.4
<b>Per share ratios (Rs)</b>				
EPS*	3.0	5.3	9.3	12.0
Adj. BVPS	24.0	28.6	37.0	70.9
DPS	0.0	0.0	0.0	0.0
<b>Other key ratios (%)</b>				
Loans/Borrowings	2.1	1.9	1.7	1.5
Cost/Income	40.0	37.2	38.6	37.5
CAR	18.8	17.3	16.9	23.2
Tier-I capital	15.7	15.8	13.5	21.1
Gross NPLs/Loans	1.2	0.9	0.6	1.6
Credit Cost	1.5	1.0	0.4	0.8
Net NPLs/Net loans	0.6	0.4	0.4	1.1
Tax rate	33.8	32.7	34.5	28.3
Dividend yield	0.0	0.0	0.0	0.0

\* For FY17, calculated after excluding the extraordinary gain on the sale of shares in subsidiary

Indecisiveness at the top seems a recurring theme for the index, given rallies faltering around 9,700 levels (Thursday's trade saw Nifty failing to cling on to higher levels post the peak of 9,699). On the downside, support of 9,560 has been holding out since the month's start. The action manifested as a 'Shooting star' candle pattern, wherein a small bodied candle emerged at lower band with a long higher shadow. This indicates profit taking due to lack of an upside positive trigger. While price volatility picked up, the overall trading band of 9,710-9,560 is still intact. Nifty also managed to mark rising high and low, defending the immediate support of 9,610. Trading in such a scenario (higher price volatility within a narrow trading band) is usually difficult, hence it's advisable not to initiate any aggressive bets on the trading front. Multiple gann supply points are placed between 9,700-9,730 levels, in what's a hurdle since June 6. The last two weeks' trade reflects a typical trend: Sell on rallies and Buy on dips.

### Fund action

- Morgan Stanley bought ~1.3mn shares of Persistent at Rs677

### Leaders

Company	CMP (Rs)	52-wk high	Deviation %
Colpal	1,103	1,110	(0.6)
HDFC Bank	1,698	1,716	(1.0)
BEML	1,547	1,570	(1.4)
HDFC	1,654	1,682	(1.7)
Tata Steel	515	526	(2.0)

### Laggards

Company	CMP (Rs)	52-wk Low	Deviation %
Videocon	18	18	1.7
Lupin	1,067	1,064	(0.3)
Wockhardt	558	555	(0.5)
Dish Tv	77	76	(1.2)
Alembic Ph.	524	515	(1.8)

\* Based on deviation from 52-week high/low

### Proximity to 20-DMA

Company	CMP (Rs)	20-DMA	Deviation %
BEML	1,547	1,315	17.6
GMR Infra	21	18	16.7
Jet Airways	568	516	10.1
Karur Bank	144	132	9.1
Tata Elxsi	1630	1496	8.96

### Proximity to 50-DMA

Company	CMP (Rs)	50-DMA	Deviation %
GMR Infra	21	17	23.5
Karur Bank	144	124	16.1
BEML	1,547	1,333	16.1
Page Ind.	16,561	14,867	11.4
Jet Airways	568	514	10.5

\* Based on deviation from moving averages

### High delivery stocks

Company	% Delivery	CMP (Rs)	% chg
Videocon Ind.	100.0	18	(4.9)
P&G	99.0	8,001	0.0
Persistent Sys	95.0	657	(3.7)
Bharti Airtel	89.0	366	(0.3)
TCS	85.0	2,395	(0.5)

### Low delivery stocks

Company	% Delivery	CMP (Rs)	% chg
Relinfra	9.0	494	0.7
BOI	17.0	136	(0.8)
Tvs Motor	18.0	543	(0.6)
IDBI	19.0	57	0.1
MMTC	20.0	60	0.3

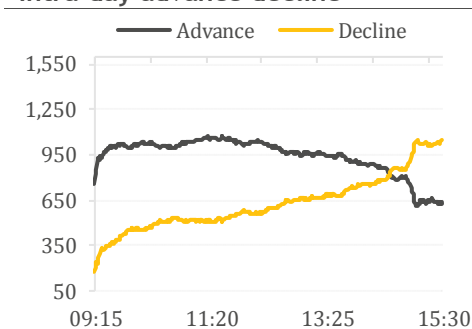
### Spurt in volumes

Company (mn)	Day's Vol.	2-week Avg. Vol	10-DMA	CMP (Rs)	% chg
IRB	2	1	227	220	(2.0)
Kotak Bank	2	1	981	998	0.6
Lupin	3	2	1,140	1,067	(2.6)
Canara Bank	2	2	353	350	(0.8)
Dabur India	1	1	288	289	0.4

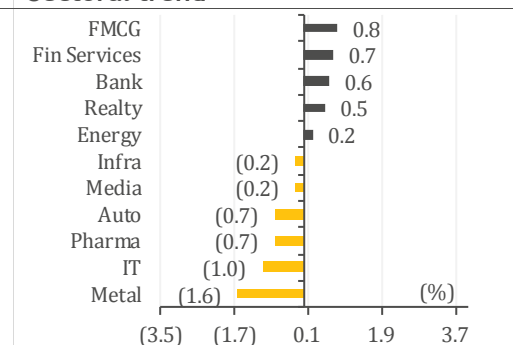
### Index Pivot

Index	Last close	Support	Pivot	Resistance
Nifty	9,630	9,599	9,649	9,680
Sensex	31,291	31,191	31,357	31,458
Nifty Bank	23,736	23,654	23,776	23,858
Nifty IT	10,200	10,127	10,241	10,315

### Intra-day advance decline



### Sectoral trend



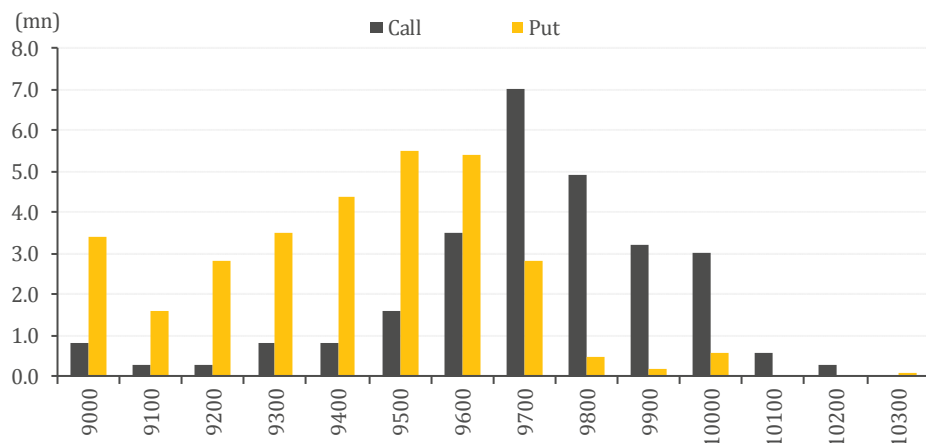
\* Calculations based on 10-DMA

### Index snapshot

	Futures	% Chg	Spot	Basis	Next Month	OI in shs	OI % Chg	PCR OI	PCR Vol	ATM IV's	Rollovers	Max call build-up	Max put build-up
Nifty	9,633	(0.2)	9,630	3.00	9,652	271,568	(3.1)	1.20	1.20	9.6	12.2%	9,700	9,500
Bank Nifty	23,729	0.1	23,736	(7.00)	23,750	57,495	(1.4)	1.47	1.10	10.8	12.4%	24,000	23,500

- Nifty saw profit booking after hitting fresh highs above 9,710 zone, breadth continue to remain negative for midcaps stocks. SGX Nifty
- Wild swings between bands of 9,600 to 9,700 zone continue as narrow options build up force traders to unwinding positions on delta move.
- FII's index futures long/short ratio at 3.01x vs 2.99x along with positive cash buy figure seen from both DII's and FII's.
- Reality, metals and PSU banks saw short build-up.

### Nifty open interest distribution



**Securities in ban period:** Albk, Bankindia, Fortis, Gmrinfra, Hdil, Ibrealst, Ifci, Infibeam, Kscl, Orientalbank, Rcom, Ujjivan, Wockpharma

### Futures open interest gainers

Scrip	OI (lacs)	% OI Chg	CMP (Rs)	% Chg	Action
Ktkbank	316	16.3	172	(1.7)	Short Build up
DLF	416	11.4	196	(0.5)	Short Build up
OFSS	1	9.5	3,685	0.5	Long Build up
NHPC	225	8.9	33	(2.9)	Short Build up
Hindalco	449	8.7	192	(2.5)	Short Build up
Exideind	155	7.7	219	(3.1)	Short Build up
OIL	24	7.6	282	(1.7)	Short Build up

### Futures open interest losers

Scrip	OI (lacs)	% OI Chg	CMP (Rs)	% Chg	Action
Petronet	67	(12.5)	435	(2.0)	Long Unwinding
Jpassociat	1,578	(9.4)	16	6.7	Short Covering
Amarajabat	12	(7.5)	851	0.7	Short Covering
Yesbank	94	(7.0)	1,452	1.0	Short Covering
Jetairways	41	(5.6)	570	0.5	Short Covering
Godrejcp	22	(5.1)	962	(1.5)	Long Unwinding
Cadilahc	37	(4.5)	524	0.2	Short Covering

### Table 1: FIIs derivative activity

Trading turnover	Index Fut*	Stock Fut*	Index Calls*	Index Puts*
FIIs	484	(66)	8,739	(820)
DIIs	(137)	9,911	(1,000)	1000
Prop	(2,444)	(2,434)	3,659	4,918
HNI Clients	2,097	(7,411)	(11,398)	(5,098)

\* No of contracts

### Commodities

**Gold** prices seem to be consolidating in a narrow range, gradually regaining lost ground post hawkish Fed policy statement. Meanwhile, dovish comments from BOJ deputy governor provided an element of support to the yellow metal. In this regard, Kikuo Iwata stated that there is no need to hike interest rates any time soon, as the economy still survives on monetary stimulus. With inflation well below 2%, BOJ's bond purchase programme also needs to be maintained. On geopolitical front, North Korea continues to defy the diktat from the West, as it tested yet another missile. It is suspected that Pyongyang is in the process of developing an intercontinental ballistic missile, which can hit US shores.

**Oil** futures attempted to stabilise after the recent rout, underpinned by reports of supply disruption in United States. Tropical depression Cindy has partially halted operations in Gulf of Mexico, which accounts for 17% of US output. However, the storm is on the wane and the disrupted production will resume soon. The broader price trajectory still hinges on the global supply/demand equilibrium, where there are yet no signs of meaningful recalibration, manifested by higher inventory levels.

### FX

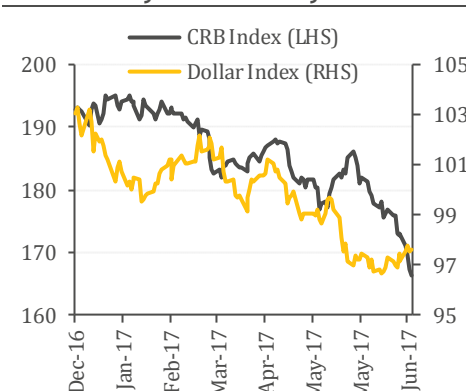
**Sterling** derived cues from the ongoing Brexit negotiations, where UK PM Theresa May seems to be trading on the path of a soft Brexit, offering a congenial environment for EU nationals after UK's departure from the integrated continent. Meanwhile, Kiwi traded on a firm note as the central bank of New Zealand projected positive outlook on the economy. In the emerging space, Mexican Peso moved higher as well after the country's central bank hiked interest rates by 25bps.

Commodities (US\$ terms)	Last Price	% chg 1d	% chg ytd
Gold (troy oz)	1,251	0.1	9.0
Silver (troy oz)	16.6	0.4	4.4
Copper (MT)	5,734	(0.1)	3.6
Aluminium (MT)	1,871	0.1	10.5
Zinc (MT)	2,682	(0.7)	4.1
Lead (MT)	2,200	(0.3)	9.1
Nickel (MT)	9,035	0.2	(9.8)
WTI Crude (bbl)	42.8	0.2	(20.3)
Br. Crude (bbl)	45.3	0.2	(20.3)
NG (mmBtu)	2.90	0.6	(21.9)

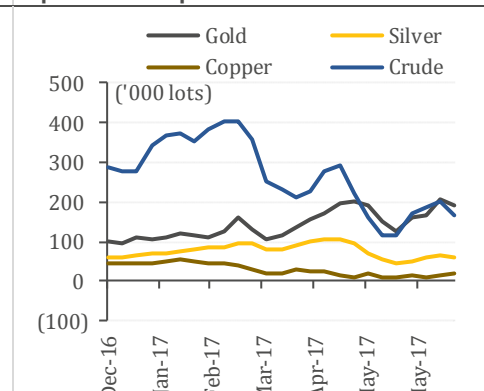
Currencies	Last price	% chg 1d	% chg ytd
USD/INR	64.60	0.0	5.2
EUR/INR	72.10	0.0	(0.6)
GBP/INR	81.80	0.0	2.0
JPY/INR	0.58	0.1	0.2
EUR/USD	1.12	0.0	6.1
GBP/USD	1.27	0.1	2.9
USD/JPY	111.30	0.0	5.1
USD/CNY	6.84	0.0	1.5
USD/Real	3.34	0.0	(2.6)
USD Index	97.50	0.0	(4.6)

Commodity Dynamics	Latest	Week ago	1m ago	6m ago	1yr ago
SPDR Gold ETF (tonnes)	854	855	851	825	912
iShares Silver ETF (mn oz)	338	336	344	340	332
LME Cu Stocks ('000 MT)	257	269	332	336	191
LME Al Stocks ('000 MT)	1,433	1,436	1,495	2,140	2,428
LME Zn Stocks ('000 MT)	304	316	340	429	395
LME Pb Stocks ('000 MT)	173	176	183	196	186
LME Ni Stocks ('000 MT)	377	377	379	372	386
US Crude stocks (mn bbl)	509	512	521	485	501
US Oil Rig Count	747	741	712	510	328

Commodity v/s Currency



Speculative positions on CME





### Asset Allocation

Model Portfolios	Conservative (%)		Moderately Conservative (%)		Balanced (%)		Moderately Aggressive (%)		Aggressive (%)	
	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA
Asset Allocations	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA
Equity	10	10	30	30	45	45	55	55	70	70
Fixed Income	80	85	58	63	41	46	25	30	8	13
Real Estate	0	0	5	5	7	7	10	10	12	12
Alternatives	5	5	5	2	5	2	8	5	8	5
Liquid Assets	5	0	2	0	2	0	2	0	2	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

SAA – Strategic Asset Allocation; TAA – Tactical Asset Allocation

Source: IIFL Research

### Strategic and Tactical Asset Allocations across Model Portfolios

Strategic Asset Allocation (SAA) is the long term asset allocation strategy for a client that is arrived at on the basis of risk assessment and investment objectives. There are five model portfolios that have asset allocations to suit different risk profiles. The model portfolios have been optimized using historical risk and returns across asset classes. Every month the IIFLW investment Committee formalizes monthly tactical views on the markets and their impact on various asset classes.

Tactical views on each asset are with a one year time horizon and Tactical Asset Allocation (TAA) is a +/- 5%-10% change to a Client's broader Strategic Asset Allocation.

### Asset Class View

Asset Class	Tactical View
Fixed Income	Neutral
Equity	Overweight
Real Estate	Neutral
US Dollar	Overweight
Gold	Overweight
Market Neutral	Overweight
Liquid Assets	Underweight

### Sector View for listed equities

Sector	Weight
Agriculture	Overweight
Automobile	Neutral
Capital Goods	Underweight
Cement	Underweight
Consumer Discretionary	Overweight
Housing finance	Overweight
MFI's	Underweight
Private Bank	Neutral
PSU Bank	Neutral
FMCG	Underweight
Infrastructure	Overweight
IT	Underweight
Metals & Mining	Neutral
E&P	Underweight
Oil Marketing	Overweight
Utilities Gas	Overweight
Pharma	Underweight
Telecom	Underweight
Utilities	Neutral

## IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the *Zee Business Market Excellence Awards 2016*.

**Prayesh Jain** was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

*IIFL Wealth Research, as you know, has always prided itself on its unique value proposition in a swarming market space of cut-throat competition, among other things, on our wealth of actionable ideas, tailored portfolio approach and thorough research in line with client needs and priorities, distinctive practice of following up with Call Success post recommendations and a vast coverage universe of as many as 300 companies (comprising 70% of India's equity mcap).*

In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

### Recommendation parameters for fundamental reports:

**Buy** = >15%+

**Accumulate** = 5% to 15%

**Reduce** = -10% to 5%

**Sell** = >-10%

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**Contact Details** - Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013, Regd. Office – IIFLW House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 3958 5600. Fax: (91-22) 4646 4706 E-mail: [research@iiflw.com](mailto:research@iiflw.com) Website: [www.iiflw.com](http://www.iiflw.com).

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