

FEDERAL BANK

Growth momentum sustains; stress normalises as guided

India Equity Research | Banking and Financial Services



Federal Bank's (FB) Q1FY19 earnings show a sustained buildup in operating rhythm (24% YoY) along with normalisation of asset quality in line with guidance. Key positives: a) slippages normalise to sub-2% (>4% in Q4FY18) with >35% from the stressed pool; the overall stressed pool thus inched down to 2% (2.3% in FY18); b) containment of credit cost at 71bps led to greater-than-expected earnings (PAT at INR2.6bn); c) sustained and broad-based growth momentum at >23% YoY and improved risk-adjusted NIM. A key variable is the soft CASA accretion (SA up 2% QoQ, CA down ~12% QoQ). Q1FY19 performance reinforces our view that FB is on course to deliver RoA/RoE of 1.0%/13% by FY20E; however, quarterly consistency is crucial. The stock trades at 1.3x FY20E ABV, and we maintain 'BUY'.

Asset quality normalization underway

Slippages were lower at INR4.6bn (2%), largely due to corporate (INR2bn with >80% from restructured book). The trend in SME and Agri continues to improve; however, retail slippages remained high, cumulatively amounting to ~INR2.5bn. Credit cost was restricted at 71bps; management is targeting credit cost of 65–70bps in FY19, lower than our estimate of 90–100bps. Henceforth: a) a lower stress pool (NNPLs + restructured book + Net SRs) at 2% level and b) strong coverage (~65%) lend comfort on asset quality. That said, volatility in asset quality is a cause for concern.

Core profitability gaining momentum, more predictable

Loan growth sustained momentum — up >23% YoY with a broad-based spurt across the retail, SME and corporate segments. This coupled with a stable NIM (3.12%, unlike peers, which reported a dip) led to strong >22% growth in NII. Controlled opex (up <14% YoY) too fed into core operating growth (ex-treasury) of 24% YoY. Core fee income shows signs of improvement, but future performance holds key. With triggers in place given dedicated focus, we expect core profitability momentum to roll on, helping FB deliver superior return ratios—RoA/RoE of 1.0% /13% by FY20E.

Outlook and valuations: Growth levers intact; maintain 'BUY'

FB is well placed given upfronting of stress recognition and ample growth levers (adequate capital). However, volatility is worrisome. We estimate an earnings CAGR of >40% over FY18–20E with potential RoE improvement to >12.5%. Stake sale in its NBFC arm will buoy earnings in coming quarter which will be utilised for creating contingency buffer. Despite the post-result run-up, the stock is trading at 1.3x FY20E P/ABV. Maintain 'BUY/SP' with TP of INR130.

Financials

(INR mn)

Year to March	Q1FY19	Q1FY18	Growth %	Q4FY18	Growth %	FY18	FY19E	FY20E
Net revenue	12,509	11,298	10.7	12,474	0.3	47,419	58,294	69,310
Net profit	2,627	2,102	25.0	1,450	81.2	8,789	14,171	17,894
Dil. EPS (INR)	1.3	1.2	10.9	0.7	80.8	4.5	7.2	9.1
Adj. BV (INR)						56.4	61.6	68.9
Price/Adj book (x)						1.6	1.4	1.3
Price/Earnings (x)						19.8	12.3	9.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: FED.BO, B: FB IN)

CMP	: INR 88
Target Price	: INR 130
52-week range (INR)	: 128 / 74
Share in issue (mn)	: 1,979.5
M cap (INR bn/USD mn)	: 175 / 2,553
Avg. Daily Vol.BSE/NSE('000)	: 11,265.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	-	-	-
MF's, FI's & BK's	30.5	30.5	34.2
FII's	37.2	37.2	35.7
Others	32.3	32.3	30.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	5.2	1.8	1.2
3 months	(11.1)	4.4	5.4
12 months	(22.6)	11.0	9.9

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Table 1: Q1FY19 results summary

(INR mn)	Q1FY19	Q1FY18	Growth (%)	Q4FY18	Growth (%)	Comments
Net interest income	9,801	8,007	22.4	9,332	5.0	<i>Nil momentum sustains on >23% loan growth and steady NIMs</i>
Other income	2,709	3,291	(17.7)	3,142	(13.8)	<i>Controlled opex supported core profitability</i>
Operating expenses	6,480	5,719	13.3	6,588	(1.6)	
Staff expense	3,450	2,985	15.6	3,308	4.3	
Other opex	3,030	2,735	10.8	3,280	(7.6)	
Pre prov op profit (PPP)	6,029	5,579	8.1	5,886	2.4	<i>Credit cost was retracted to 71bps, management expects 65-70bps credit cost for FY19</i>
Provisions	1,992	2,364	(15.8)	3,715	(46.4)	
Profit before tax	4,038	3,214	25.6	2,170	86.0	
Provision for tax	1,411	1,113	26.8	721	95.8	
Profit after tax	2,627	2,102	25.0	1,450	81.2	
EPS (INR)	1.3	1.2	10.9	0.7	80.8	
Balance sheet data						
Advances (INR bn)	943	763	23.6	920	2.5	<i>Loan growth sustained momentum — up > 23% YoY, with broad-based spurt across retail, SME and corporate segment.</i>
Deposits (INR bn)	1,112	958	16.1	1,120	(0.7)	
CD ratio (%)	84.8	79.6		82.1		
Asset quality (INR mn)						
Gross NPA	28,688	18,679	53.6	27,956	2.6	<i>Slippages were curtailed at INR4.6bn (2%)</i>
Gross NPAs (%)	3.0	2.4		3.0		
Net NPA	16,202	10,613	52.7	15,520	4.4	
Net NPA(%)	1.7	1.4		1.7		
Provision coverage (%)	43.5	43.2		44.5		

Source: Company, Edelweiss research

Table 2: Loan growth sustains momentum at >23%; CD ratio at ~85%

	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Advances (INR mn)	5,80,901	5,91,180	6,46,869	6,96,290	7,33,363	7,63,070	8,06,459	8,49,530	9,19,575	9,42,970
Advances growth Q-o-Q (%)	10.1	1.8	9.4	7.6	5.3	4.1	5.7	5.3	8.2	2.5
Advances growth Y-o-Y (%)	13.3	19.3	27.2	32.0	26.2	29.1	24.7	22.0	25.4	23.6
Deposits (INR mn)	7,91,717	8,11,320	8,62,991	9,22,360	9,76,646	9,58,390	9,72,108	10,05,370	11,19,920	11,12,420
Deposit growth Q-o-Q (%)	5.9	2.5	6.4	6.9	5.9	(1.9)	1.4	3.4	11.4	(0.7)
Deposits growth Y-o-Y (%)	11.8	12.5	17.0	23.3	23.4	18.1	12.6	9.0	14.7	16.1
CD ratio (%)	73.4	72.9	75.0	75.5	75.1	79.6	83.0	84.5	82.1	84.8

Table 3: Asset quality normalises, slippages curtailed at 2% levels

(%)	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Incremental slippage	1.8	1.7	1.4	2.4	1.5	2.0	4.1	2.0
Gross NPA (INR mn)	18,197	19,516	17,271	18,679	19,490	21,672	27,956	28,688
Gross NPA	2.8	2.8	2.3	2.4	2.4	2.5	3.0	3.0
Net NPA (INR mn)	10,397	11,024	9,412	10,613	10,664	11,567	15,520	16,202
Net NPA	1.6	1.6	1.3	1.4	1.3	1.4	1.7	1.7
Provision coverage	42.9	43.5	45.5	43.2	45.3	46.6	44.5	43.5

Source: Company

Table 4: Curtailed slippages along with better recoveries restrict GNPLs

(INR mn)	Amount
Gross NPA as on FY18	27,960
Add Fresh Slippage	4,610
Add Increase in Balances in Existing NPAs	210
Deduct Recoveries/ Upgrades	2,460
Deduct Written Off	1,630
Deduct Sale to ARCs	-
Gross NPA as on 31.03.2018	28,690

Table 5: Slippages contained in SME and agri segments, retail elevated

(%)	Q118	Q218	Q318	Q418	Q119
Retail	1.8	1.9	2.6	1.2	1.7
SME	2.8	2.5	2.8	3.1	1.9
Corp	2.1	0.2	1.1	6.4	2.0

Table 6: Broad-based growth in loan book

(%)	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Retail	29.3	29.2	28.2	27.6	27.7	27.2	27.0	26.8
Corporate	36.9	39.1	39.2	41.7	41.4	42.2	42.7	44.0
SME	23.8	22.4	22.8	20.8	21.0	20.7	20.4	19.2

Table 7: CASA ratio of ~33%, CA momentum softer

(%)	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
CASA	31.0	34.7	32.6	33.4	32.9	33.0	33.3	33.5

Table 8: Cost-to-income ratio at >50%; improvement key for RoA improvement

(%)	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119
Tax rate	(74.5)	35.0	34.3	34.9	39.8	34.6	35.1	34.8	33.2	34.9
Cost-income	57.2	54.2	51.9	55.5	51.2	50.6	50.8	52.4	52.8	51.8

Source: Company

Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Interest income	26,674	23,241	14.8	25,480	4.7	97,529	117,711	143,109
Interest exp	16,873	15,234	10.8	16,148	4.5	61,701	74,135	89,193
Net int. inc. (INR mn)	9,801	8,007	22.4	9,332	5.0	35,828	43,576	53,916
Other income	2,709	3,291	(17.7)	3,142	(13.8)	11,591	14,717	15,395
Net revenues	12,509	11,298	10.7	12,474	0.3	47,419	58,294	69,310
Operating expenses	6,480	5,719	13.3	6,588	(1.6)	24,509	28,199	32,339
Staff expense	3,450	2,985	15.6	3,308	4.3	12,425	13,829	15,240
Other opex	3,030	2,735	10.8	3,280	(7.6)	12,084	14,371	17,098
Pre prov op profit(ppop)	6,029	5,579	8.1	5,886	2.4	22,910	30,094	36,972
Provisions	1,992	2,364	(15.8)	3,715	(46.4)	9,472	8,817	10,105
Profit before tax	4,038	3,214	25.6	2,170	86.0	13,439	21,277	26,867
Provision for taxes	1,411	1,113	26.8	721	95.8	4,650	7,107	8,974
PAT	2,627	2,102	25.0	1,450	81.2	8,789	14,171	17,894
Diluted EPS (INR)	1.3	1.2	10.9	0.7	80.8	4.5	7.2	9.1

Ratios

NII/GII (%)	36.7	34.5		36.6		36.7	37.0	37.7
Cost/income (%)	51.8	50.6		52.8		51.7	48.4	46.7
Provisions / PPOP	33.0	42.4		63.1		41.3	29.3	27.3
Tax rate (%)	34.9	34.6		33.2		34.6	33.4	33.4

Bal. sheet data (INR bn)

Advances	943	763	23.6	920	2.5	920	1,140	1,414
Deposits	1,112	958	16.1	1,120	(0.7)	1,120	1,362	1,704
CD ratio (%)	84.8	79.6		82.1		82.1	85.7	84.9

Asset quality

Gross NPA	28,688	18,679	53.6	27,956	2.6	27,956	33,521	38,708
Gross NPA (%)	3.0	2.4		3.0		3.0	2.9	2.7
Net NPA	16,202	10,613	52.7	15,520	4.4	15,520	17,201	18,455
Net NPA (%)	1.7	1.4		1.7		1.7	1.5	1.3
Provision coverage (%)	43.5	43.2		44.5		44.5	48.7	52.3
B/V per share (INR)						62.0	67.8	75.4
Adj book value / share						56.4	61.6	68.9
Price/ Adj. book (x)						1.6	1.4	1.3
Price/ Earnings						19.8	12.3	9.7

Q1FY19 earnings call takeaways

With respect to asset quality

- Total slippages to be between INR11bn -12bn in FY19, despite INR4.61bn slippages in Q1FY19 the management maintained guidance of INR11-12bn in FY19. **Management holds credit cost guidance at 65-70bps.**
 - **Slippages break-up per quarter: Agri (INR540mn), Retail (INR1bn), SME(INR900mn) and restructured book (INR1.63bn).** SME has seen some challenges in Kerela, and thus bank has seen some pull back, but expects no major hiccups in this segment.
 - Of the INR2.07bn of corporate of this INR1.63bn was from restructured book.
 - SMA book for the bank is at all time low and has been trending down over period of time
- Restructured book is INR5.5bn (one large account of INR2.5bn), balance is very granular in nature. **Overall stress pool (NNPL + std restructured book + Net SRs) at 2.01% with management expects this to come down to 1.7% level by FY19.**
- Provision on Security Receipts (SRs) – The outstanding provisions now at INR1.83bn (INR1.8bn this quarter). The gross value has come down to INR6.6bn (versus INR7.25bn earlier), thus pegging net value is INR4.8bn
- One upgrade of significant amount has happened this quarter (balance is very granular), which also helped restrict GNPLs
- Provision composition – NPL provisions at INR1.66bn, standard - INR30mn and treasury - INR300mn

With respect to operational metrics

- **Management maintained exit RoA target of 1% for FY19**
- Operating momentum has strengthened this quarter visible in both credit growth > 23%, and consequent core operating metric growth of > 35%. Q2FY19 should continue the momentum seen during this quarter.
 - Has inducted few more people in the organization to focus further on growth trajectory viz. as vehicle finance, unsecured part etc.
 - Gold loan book is going up, but retail gold loan is coming down while agri gold loans is going up
 - The bank is looking for opportunity in MFI business but nothing is crystalised at this point in time. The bank is looking as it provides a) Increased distribution b) higher margin business and c) priority sector lending requirements.
- **NIMs at 3.12%, management expects NIMs to sustained at 3.2% levels for full year FY19 likely on change in asset mix, pricing power among others.**
 - 70% plus of the bank loans are linked to MCLR (<10% of the book is linked to short term i.e 3m MCLR, of the segment retail mortgage and higher rated corporate is linked to shorter duration MCLR).
 - Less than 10% of the book is linked to external benchmark wherein rates could be lower than MCLR

- 96% of the deposit is retail. This quarter there was sizeable reduction in CDs thus deposit growth has been optically lower.
- During the quarter, the entire unammortised gratuity expenditure (of INR536mn) was provided.

Other highlights

- NR deposits composition – SA: INR132.8bn (INR123.8bn), Current - INR2bn
- Weighted average cost is 3.5%, there are only two accounts with balance of INR500mn wherein the bank offers 6.5% rate.
- **Fed Fina has got the strategic partner (True North), waiting for final regulatory approval.** IDBI Federal Life Insurance , will have more clarity over next 3-4 weeks.
- Investment in Equirus is starting to crystalise, management expects further synergies to play through.

Q4FY18 earnings call takeaways

With respect to asset quality

- Out of the fresh slippages (INR8.7bn, mostly from the legacy 2009-11 infra book), INR4.9bn was on account of RBI norms for resolution of stressed assets (4 accounts) and INR3.8bn was from business as usual.
 - Accelerated slippages included INR3.8bn from restructured std book against corporate accounts and INR1.1bn from SMA book, mainly in the road sector
 - Slippages from business as usual included INR1.1bn from restructured std book and INR2.7bn from SMA book. Currently SMA book is around half of what it was at the start of the year and trending downwards.
- **Amongst the balance INR7.92bn standard restructured, one is a sovereign airline account (INR2.57bn) and hence not downgraded in the anticipation that there may be some resolution. Apart from that INR750mn was a road project and INR3.5bn worth of accounts are granular and historically recoveries from these low ticket size infra accounts are generally in the range of 20%.**
- Total standard restructured at INR6.3bn with INR4.9bn slippages, INR1.2bn FITL and INR0.2bn of upgrade
- **RBI dispensation scheme not used for AFS losses as the duration of the book was manageable. That said, the bank is comfortable on the bonds for current yield level. The book is being maintained at low duration currently.**
- Breakup of provisions - Credit provisions at INR2.6bn and other provisions at INR1.2bn (MTM on SRs of INR750-800mn). SDRs has been largely recognized while S4A and 5:25 of INR1.5bn worth is outstanding (included in the standard restructured book)
- **Management guidance of 65-70bps of credit cost for FY19. Provisioning of INR750mn-800mn against SR during a year factored in the credit cost guidance.**
- On a total SR book of INR7.25bn, the provisioning stands at INR1.8bn. (SR vintage is 4 years with peak at FY17). In Q4FY18, there a downgrade from SR (a shipyard account)
- **Total slippages to be between INR11bn -12bn in FY19 (would include around INR4bn from restructured book) with recoveries at the historical rate of around INR2bn per quarter.**
 - **Slippages break-up per quarter: Agri (INR700mn), Retail (INR300mn), SME(INR1bn) and restructured book (INR1bn)**
- Nothing has been recovered from education loans this quarter. Corporate recoveries too remain a challenge but incremental provisioning may not be required in some of the accounts like steel.
- **PCR is currently at 45% (without technically written off accounts) for NPA and 5% for restructured standard (including FITL at 15%). This could be increased as and when sales proceeds are received from stake sale**

With respect to operational metrics

- NIMs came in at 3.11% for Q4FY18. Interest income of INR760mn for Q4FY18 not recognized for accounts which have slipped to NPA (INR310mn for specific 4 accounts). That said, steady state NIMs should be 3.25% for FY19.

- RoA target of 1% and C/I ratio guidance of 50% maintained for FY19
- **The bank is building capabilities in the investment banking domain and relationship with Equirus will be fruitful in this respect. Apart from this the bank is looking to focus on unsecured retail loans and CV financing(to be very specific for one or two geographies) going forward. Announcement with respect to the NBFC will be coming up in the near future (over 2-3 days).**
 - The bank has hired senior people to look after government accounts and treasury
- CASA target to be 34%+ over FY19 and 37%-38% in the next 3 years
- Employee expenses were higher on account of higher gratuity expense driven by order from Ministry of labour and employment to enhance gratuity ceiling. The amount charged in Q4FY18 was INR179mn and the unammortised gratuity expenditure was INR536mn as on FY18

Other highlights

- **By July/August the whole process of insurance business transaction should be over. Bank is looking to sell its 26% stake to the bidders (currently 2 being evaluated)**
- ATS would be around INR400mn -500mn on the incremental book of working capital loans
- Total recoveries and upgrades for FY18 would be INR6.85bn

Company Description

Federal Bank (FB) is a Kerala-based regional private sector bank incorporated on 23 April, 1931 as the Travancore Federal Bank Limited. Today, the bank has a presence in 25 states, the National Capital Territory of Delhi and four union territories. The bank also has exposure to insurance and the NBFC business.

FB has an asset base of over INR1.4tn and a network of 1,252 branches (~48% in Kerala) and 1,679 ATMs. SME and retail lending are the focus areas and constitute ~19% and ~27%, respectively, of loan book. The bank has been proactively managing its strategy of being a branch-light distribution-heavy franchise with an eye on operational improvements. The push towards digital banking is also expected to reap benefits in the future.

Investment Theme

FB is well placed given upfronting of stress recognition and ample growth levers (with adequate capital). However, volatility is a key concern. We estimate earnings CAGR of >40% (albeit on lower base) over FY18–20E with potential improvement in RoE to >12.5%. Despite the the post-result run-up, the stock is trading at 1.3x FY20E P/ABV. We maintain 'BUY/SP'.

Key Risks

High dependence on the NRI segment (>35% of deposits) exposes FB to regulatory risks.

Relatively soft CASA accretion in the current scenario is negative for the bank.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Op. metric assumpt. (%)				
Yield on advances	10.0	9.9	9.8	9.8
Yield on investments	7.0	6.6	6.5	6.3
Yield on asset	8.9	8.1	8.0	7.9
Cost of funds	5.9	5.3	5.3	5.1
Net interest margins	3.1	3.0	3.0	3.0
Cost of deposits	6.1	5.4	5.5	5.4
Cost of borrowings	5.5	5.3	4.8	4.2
Spread	3.0	2.8	2.8	2.8
Tax rate (%)	36.4	34.6	33.4	33.4
Balance sheet assumption (%)				
Credit growth	25.0	25.4	24.0	24.0
Deposit growth	23.4	14.7	21.6	25.1
SLR ratio	20.8	20.0	20.0	20.0
Low-cost deposits	32.8	32.8	34.3	35.0
Gross NPA ratio	2.3	3.0	2.9	2.7
Net NPA ratio	1.3	1.7	1.5	1.3
Net NPA / Equity	10.5	12.7	12.9	12.4
Capital adequacy	12.4	14.7	14.0	13.3
Incremental slippage	1.8	2.7	1.6	1.5
Provision coverage	45.5	44.5	48.7	52.3

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	86,774	97,529	117,711	143,109
Interest expended	56,248	61,701	74,135	89,193
Net interest income	30,526	35,828	43,576	53,916
Non interest income	10,818	11,591	14,717	15,395
- Fee & forex income	7,037	8,368	9,874	11,652
- Misc. income	693	843	843	743
- Investment profits	3,088	2,380	4,000	3,000
Net revenue	41,345	47,419	58,294	69,310
Operating expense	22,095	24,509	28,199	32,339
- Employee exp	11,638	12,425	13,829	15,240
- Other opex	10,458	12,084	14,371	17,098
Preprovision profit	19,249	22,910	30,094	36,972
Provisions	6,184	9,472	8,817	10,105
Loan loss provisions	4,051	9,472	8,817	10,105
Investment depreciation	296	-	-	-
Other provisions	1,837	-	-	-
Profit Before Tax	13,065	13,439	21,277	26,867
Less: Provision for Tax	4,757	4,650	7,107	8,974
Profit After Tax	8,308	8,789	14,171	17,894
Reported Profit	8,308	8,789	14,171	17,894
Shares o /s (mn)	1,724	1,970	1,970	1,970
Adj. Diluted EPS (INR)	4.8	4.5	7.2	9.1
Dividend per share (DPS)	0.9	1.0	2.4	2.4
Dividend Payout Ratio(%)	18.7	13.0	19.4	15.4

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
NII growth	21.9	17.4	21.6	23.7
Fees growth	28.9	18.9	18.0	18.0
Opex growth	18.4	10.9	15.1	14.7
PPOP growth	24.6	27.0	27.1	30.2
PPP growth	35.2	19.0	31.4	22.9
Provisions growth	(12.2)	53.2	(6.9)	14.6
Adjusted Profit	74.7	5.8	61.2	26.3

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	10.0	9.9	9.8	9.8
Yield on investments	7.0	6.6	6.5	6.3
Yield on assets	8.9	8.1	8.0	7.9
Cost of funds	5.9	5.3	5.3	5.1
Net interest margins	3.1	3.0	3.0	3.0
Cost of deposits	6.1	5.4	5.5	5.4
Cost of borrowings	5.5	5.3	4.8	4.2
Spread	3.0	2.8	2.8	2.8
Cost-income	53.4	51.7	48.4	46.7
Tax rate	36.4	34.6	33.4	33.4

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	3,448	3,940	3,940	3,940	
Reserves & Surplus	85,926	118,110	129,533	144,679	
Net worth	89,374	122,050	133,473	148,619	
Deposits	976,646	1,119,920	1,362,322	1,704,211	
Total Borrowings	58,973	115,340	155,340	180,340	
Other liabilities	27,046	25,780	26,656	35,812	
Total liabilities	1,152,039	1,383,090	1,677,790	2,068,982	
Loans	733,363	919,570	1,140,267	1,413,931	
Cash and Equivalents	74,522	92,040	91,404	114,003	
Gilts	215,654	247,052	303,532	376,910	
Others	66,307	60,758	72,796	87,402	
Fixed assets	4,845	4,520	4,449	4,304	
Other Assets	57,349	59,150	65,341	72,432	
Total assets	1,152,039	1,383,090	1,677,790	2,068,982	
Credit growth	25.0	25.4	24.0	24.0	
Deposit growth	23.4	14.7	21.6	25.1	
EA growth	27.1	21.1	21.9	23.9	
SLR ratio	20.8	20.0	20.0	20.0	
C-D ratio	76.9	84.1	85.7	84.9	
Low-cost deposits	32.8	32.8	34.3	35.0	
Provision coverage	45.5	44.5	48.7	52.3	
Gross NPA ratio	2.3	3.0	2.9	2.7	
Net NPA ratio	1.3	1.7	1.5	1.3	
Incremental slippage	1.8	2.7	1.6	1.5	
Net NPA / Equity	10.5	12.7	12.9	12.4	
Capital adequacy	12.4	14.7	14.0	13.3	
- Tier 1	11.8	14.2	13.5	12.8	

RoE decomposition (%)				
Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	3.1	3.0	3.0	3.0
Fees/Assets	0.8	0.8	0.7	0.7
Invst. profits/Assets	0.3	0.2	0.3	0.2
Net revenues/assets	4.2	3.9	4.0	3.9
Operating expense/assets	(2.3)	(2.0)	(1.9)	(1.8)
Provisions/assets	(0.6)	(0.8)	(0.6)	(0.6)
Taxes/assets	(0.5)	(0.4)	(0.5)	(0.5)
Total costs/assets	(3.4)	(3.2)	(3.0)	(2.9)
ROA	0.9	0.7	1.0	1.0
Equity/assets	8.7	8.8	8.7	7.8
ROAE (%)	9.8	8.3	11.1	12.7

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	4.8	4.5	7.2	9.1
Y-o-Y growth (%)	74.2	(7.4)	61.2	26.3
BV per share (INR)	51.8	62.0	67.8	75.4
Adj. BV per share (INR)	48.0	56.4	61.6	68.9
Diluted P/E (x)	18.3	19.8	12.3	9.7
Price/ BV (x)	1.7	1.4	1.3	1.2
Price/ Adj. BV (x)	1.8	1.6	1.4	1.3
Dividend Yield (%)	1.0	1.1	2.7	2.7

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Federal Bank	2,553	12.3	9.7	1.4	1.3	11.1	12.7
Axis Bank	20,178	17.8	13.1	2.3	2.0	11.7	14.3
DCB Bank	735	15.8	12.5	1.8	1.6	11.7	13.1
HDFC Bank	82,808	26.9	21.5	4.1	3.6	17.3	17.4
ICICI Bank	25,035	12.6	9.1	2.0	1.7	12.9	16.3
IndusInd Bank	16,711	25.6	20.0	4.2	3.6	17.4	18.9
Karnataka Bank	622	5.7	4.7	0.8	0.7	11.3	12.8
South Indian Bank	599	6.5	5.5	0.9	0.8	12.7	13.0
Yes Bank	12,826	16.0	12.1	3.0	2.5	19.6	21.8
Median	-	15.8	12.1	2.0	1.7	12.7	14.3
AVERAGE	-	15.5	12.0	2.3	2.0	14.0	15.6

Source: Edelweiss research

Additional Data

Directors Data

K. M. Chandrasekhar	Part Time Chairman	Shyam Srinivasan	Managing Director & CEO
Ashutosh Khajuria	Executive Director	Ganesh Sankaran	Executive Director
Grace Elizabeth Koshie	Director	Shubhalakshmi Panse	Director
Nilesh Shivji Vikamsey	Director	Dilip G. Sadarangani	Director
C. Balagopal	Director	Harish H. Engineer	Director

Auditors - B S R & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
HDFC Asset Management Company	4.89	Yusuffal Musaliam Veetil	3.78
ICICI Prudential Asset Mgmt Company	3.59	Franklin Resources	2.94
Amansa Capital Pvt	2.91	Reliance Capital Trustee Company	2.93
Nomura	2.37	Commonwealth Bank Of Australia	2.34
Vanguard Group Inc/The	2.23	Aditya Birla Sun Life Asset Management Company	2.06

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Jul 2018	Kuriakose Conil	Sell	46320.00
02 Apr 2018	Shyam Srinivasan	Sell	250000.00
16 Mar 2018	Ashutosh Khajuria	Sell	15000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Capital	BUY	SO	M	Allahabad Bank	HOLD	SU	M
Axis Bank	HOLD	SU	M	Bajaj Finserv	BUY	SP	L
Bank of Baroda	BUY	SP	M	Bharat Financial Inclusion	BUY	SP	M
Capital First	BUY	SO	M	DCB Bank	HOLD	SP	M
Dewan Housing Finance	BUY	SO	M	Equitas Holdings Ltd.	BUY	SO	M
Federal Bank	BUY	SP	L	HDFC	HOLD	SP	L
HDFC Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
IDFC Bank	BUY	SP	L	Indiabulls Housing Finance	BUY	SO	M
IndusInd Bank	BUY	SP	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	BUY	SO	M	L&T FINANCE HOLDINGS LTD	BUY	SO	M
LIC Housing Finance	BUY	SP	M	Magma Fincorp	BUY	SP	M
Mahindra & Mahindra Financial Services	HOLD	SP	M	Manappuram General Finance	BUY	SO	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	HOLD	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	REDUCE	SU	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SO	M
State Bank of India	BUY	SP	L	Union Bank Of India	HOLD	SP	M
Yes Bank	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, Indusind Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
16-Jul-18	DCB Bank	NIMs under pressure; productivity improvement key; Result Update	162	Hold
13-Jul-18	Karnataka Bank	Asset quality improves; core soft; Result Update	122	Buy
11-Jul-18	Insurance	Insurance premiums: Growth momentum softening; Sector Update		

Distribution of Ratings / Market Cap

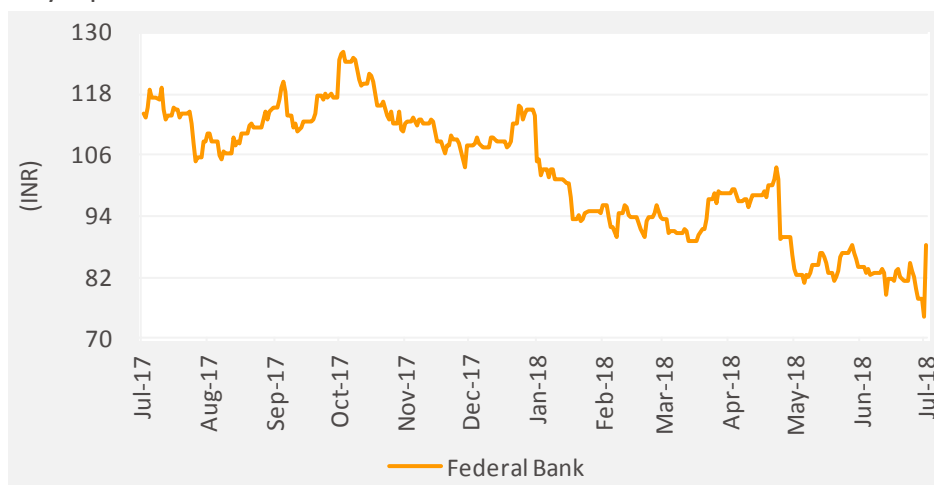
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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