SECTOR- FINANCIALS

Margins pressure raises concern

Pvt Banks
AXSB
CUB
DCBB
FB
HDFCB
ICICIBC
IIB
KVB
RBK
SIB
YES

Public Banks
BOB
BOI
CBK
SBIN
UNBK

SF Banks
AU BANK
EQUITAS
UJJIVAN

NBFCs
BAF
CANF
CIFC
DEWH
HDFC
IHFL
L&TFH
LICHF
MMFS
MGMA
MANAPPURAM
MUTHOOTFIN
PFC
REC
SHTF

Research Analyst
Deepak Kumar
deepak.kumar@narnolia.com
2262701205
Sweta Padhi
Anu Gupta
Gokulnathan D

Nifty Financial service fell down nearly 14% in last 2 months on the rising concerns over assets liability mismatch and tightening liquidity situation which would ultimately result in significant margin compression for the industry. The concerns were also aggravated due to management change uncertainty and merger talks in PSU banks. Default of IL&FS and increased redemptions of debt fund by mutual fund companies triggered the fall in the market. RBI stated to bring stricter norm of short term funding for NBFCs which might again result in margin compression for most of the NBFCs. However SBI's statement for buying Rs 45000 Cr of portfolio from NBFCs will be positive to inject liquidity in NBFCs.

BANKS-

NIM compression and higher credit cost will lead earning pressure.

10-year G-Sec bond yield moved beyond 8.1% recently raising concerns over increasing cost of fund for the industry. NIM is expected to come under pressure for most of the banks. PSU banks can report steady or improved NIM on the back of lower interest reversal and favorable base impact. Assets re-pricing at higher MCLR will be watched closely going ahead. CASA has been also under pressure for the banks. We expect NII growth for Pvt Banks of 15% YoY whereas it would be around 13% YoY for PSU banks under our coverage. NIM compression will have more impact on regional banks. Other income once again will be impacted by MTM loss; however Rupee depreciation can result in significant forex gain for the banks. Credit cost is expected to remain elevated during the quarter. We expect muted PAT growth of 5% YoY for the total banks under our universe. Pvt Banks are expected to report 10% growth whereas PSU bank is expected to report 55% decline in PAT.

Credit growth is expected to be strong.

Recent RBI data reported 13.5% YoY credit growth for the system. We expect advances growth of 12% for our coverage universe backed by retail, SME and working capital growth. Corporate loan growth is expected to show sign of revival. Yes bank and HDFC Bank reported strong loan growth of 61.5% and 24% YoY respectively. Deposits growth is expected to get tapper due to liquidity issues.

Credit cost is expected to remain elevated.

Slippage is expected to remain steady though elevated for corporate lenders as watch-list is still left for recognition. However the pain would be significant lower than it was in FY18. Kerala Flood will have impact on assets quality, Federal Bank and South Bank will be watched closely. Credit cost is expected to remain elevated during 2Q FY19 due to ageing related NPA for most of banks. However higher PCR of AXSB, ICICIB, BOB, SBI is a key positive and reflects only near term pain. Credit cost is expected to mitigate from the end of the FY19. Whereas for PSU banks we expect lower credit cost in FY20 only. Since there is no significant resolution under NCLT cases, hence recovery and up-gradation is expected to decline significantly over the last quarter. Progress in resolution of power sector will be under key watch going forward. Supreme Court has stayed the stress power sector movement to NCLT during the quarter. Talks of merger of PSU banks will have hangover going forward.

NBFCs-

Concerns over margin and growth

Margin compression has become a key issue for the NBFCs going forward. Assets liability mismatch, Liquidity issue and IL&FS default issue has impacted the market sentiment adversely. Spike in bond yield will raise the cost of fund. We expect impact will be more adverse in HFCs as they are more price sensitive than other assets finance companies. On the other hand transition to IND AS will have impact on reporting. AUM growth for vehicle finance companies is expected to remain strong on the back of continued strong auto sales in the country. Assets quality is expected to improve going forward for them. Strong rural demand and road infrastructure projects will keep strong growth momentum for rural focused NBFCs. We like CHOLAFIN, M&MFIN and SRTRANSFIN in this space. Consumer durable financing is also expected to report strong earnings momentum due to start of festive season. BAJFINANCE is our top pick in this space. Under HFC space we like HDFC Ltd. We also prefer REC and PFC as AUM growth for them is also expected to pick up backed by improving power demand in the country. NIM is expected to remain under pressure but lower credit cost is expected to boost earnings significantly for them. Resolution of power sector and haircut to be taken remains under key watch but both having PCR of near to 50% is a key positive.

Sector View-

Earnings for retail lenders are likely to remain stable with healthy loan growth. NIM is likely to be under pressure but controlled credit cost will give steady PAT growth. On the other hand corporate lenders are likely to post muted profitability due to higher credit cost requirement. Slippages are expected to remain steady during the quarter where as credit growth is expected to pick up for most of the banks. On the banking space we like AXSB, HDFCB, IIB, ICICIBC, RBK, SBIN and BOB.

Under NBFC, NIM has come under immense pressure. We continue to like NBFCs where demand for assets is visible but with diversified and stable ALM profile. We prefer BAF, HDFC, CIFC, MMFS, SHTF, PFC and REC.

Company	Reco	RoE			RoA			BVPS Growth%			P/BV		
PVT Banks		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
AXSB	BUY	0%	9%	16%	0.0%	0.8%	1.4%	6%	10%	17%	2.06	2.11	1.81
CUBK	Neutral	15%	15%	16%	1.6%	1.6%	1.7%	6%	14%	16%	2.74	2.34	2.01
DCBB	Accumulate	10%	11%	12%	0.9%	0.9%	1.0%	18%	10%	12%	1.77	1.49	1.33
FB	BUY	8%	9%	12%	0.7%	0.8%	0.9%	19%	8%	10%	1.48	1.05	0.95
HDFCB	BUY	18%	16%	16%	1.8%	1.8%	1.9%	17%	31%	13%	4.62	3.80	3.36
ICICIBC	Accumulate	7%	5%	12%	0.8%	0.6%	1.3%	-5%	4%	11%	1.70	1.79	1.61
IIB	BUY	16%	17%	19%	1.8%	1.8%	1.9%	15%	16%	18%	4.52	3.54	2.99
KVB	BUY	6%	6%	13%	0.5%	0.5%	1.1%	4%	3%	8%	1.17	0.90	0.83
RBK	Accumulate	12%	13%	16%	1.1%	1.3%	1.4%	38%	12%	16%	2.99	2.96	2.55
SIB	BUY	7%	4%	12%	0.4%	0.2%	0.6%	8%	2%	10%	0.79	0.48	0.43
YES	BUY	18%	18%	20%	1.6%	1.5%	1.6%	-77%	17%	19%	2.73	1.58	1.33
Public Banks		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BOB	BUY	-6%	7%	11%	-0.3%	0.4%	0.6%	-6%	7%	11%	0.87	0.59	0.53
BOI	Neutral	-18%	-3%	3%	-1.0%	-0.2%	0.2%	-34%	-3%	3%	0.51	0.41	0.39
CBK	BUY	-12%	4%	10%	-0.7%	0.2%	0.5%	-14%	4%	10%	0.54	0.46	0.42
SBIN	BUY	-3%	2%	13%	-0.2%	0.1%	0.8%	4%	2%	13%	1.02	1.03	0.91
UNBK	BUY	-22%	4%	8%	-1.1%	0.2%	0.4%	-37%	3%	9%	0.44	0.31	0.29
SF Banks		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
AU BANK	Neutral	14%	13%	14%	2.0%	1.5%	1.5%	14%	32%	14%	7.74	5.37	4.70
EQUITAS	BUY	1%	9%	14%	0.3%	1.4%	1.8%	1%	10%	15%	2.14	1.59	1.38
UJJIVAN	Accumulate	0%	9%	14%	0.1%	1.6%	2.0%	-1%	10%	14%	2.37	1.60	1.40
NBFCs		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BAF	BUY	20%	21%	24%	3.6%	3.9%	4.1%	64%	17%	25%	6.16	6.66	5.32
CANF	Neutral	25%	21%	19%	2.1%	1.8%	1.6%	25%	21%	19%	4.80	2.06	1.73
CIFC	BUY	21%	22%	21%	2.8%	2.7%	2.5%	19%	22%	20%	4.40	2.98	2.49
DEWH	BUY	14%	18%	15%	1.2%	1.4%	1.2%	10%	25%	14%	1.82	0.91	0.80
HDFC	BUY	24%	14%	13%	3.3%	2.1%	1.9%	47%	12%	9%	4.98	4.37	4.03
IHFL	Neutral	30%	30%	31%	3.3%	3.1%	3.2%	10%	32%	18%	3.00	2.27	1.93
L&TFH	BUY	17%	19%	16%	1.2%	1.4%	1.3%	15%	20%	15%	2.13	1.37	1.20
LICHF	Neutral	11%	14%	14%	1.8%	2.2%	2.1%	32%	11%	11%	2.70	2.44	2.19
MMFS	BUY	10%	13%	14%	1.5%	2.0%	2.2%	7%	6%	14%	1.57	1.15	1.01
MGMA	HOLD	19%	19%	19%	4.1%	4.3%	4.2%	14%	15%	28%	2.40	1.43	1.12
MANAPPURAM	Neutral	24%	23%	22%	5.5%	6.0%	5.9%	19%	21%	20%	2.10	1.73	1.44
MUTHOOTFIN	Neutral	14%	17%	19%	1.8%	2.3%	2.3%	42%	7%	19%	2.50	1.91	1.60
PFC	BUY	15%	14%	16%	2.1%	3.4%	3.4%	9%	-1%	10%	0.57	0.54	0.49
REC	BUY	14%	16%	17%	2.0%	2.2%	2.1%	6%	-3%	11%	0.70	0.60	0.54
SHTF	BUY	13%	17%	18%	1.9%	2.3%	2.3%	11%	24%	17%	2.60	1.57	1.34

#For valuation, CMP of 03rd October 2018 has been considered.

AU Small Finance Bank Ltd

AUBANK IN

Financials- Banks

CMP	**565**
Target	**541**
Upside	**-4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	10.1%	13.7%	12.6%	14.4%
Roa%	10.2%	2.0%	1.5%	1.5%
Div Yield%	-	0.1	0.2	0.3
BVPS	70	80	105	120
P/B	-	7.7	5.4	4.7

	FY17	FY18	FY19E	FY 20E	Q2FY18	Q1FY19	Q2FY19E
AUM	11,055	16,038	22,453	30,312	12,133	17,322	18,806
AUM Growth%	*34%*	*45%*	*40%*	*35%*	*30%*	*61%*	*55%*
Borrowings	7,120	15,562	22,453	30,618	9,404	16,874	18,437
Deposits	-	6,743	12,137	20,208	1,978	8,071	8,955
Deposits Gr QoQ			*80%*	*67%*		*890%*	*353%*
GNPA%	1.9%	2.0%	2.7%	2.9%	3.1%	2.2%	2.4%
NNPA%	1.2%	1.3%	1.8%	1.8%	2.1%	1.4%	1.6%
Net Interest Income	784	940	1,229	1,744	220	286	292
NII Gr	*27%*	*20%*	*31%*	*42%*	*12%*	*56%*	*33%*
Opex	353	753	1,024	1,405	173	237	243
Opex Growth%	*37%*	*113%*	*36%*	*37%*	*134%*	*103%*	*40%*
Pre-provision Profit	570	576	677	976	144	152	162
PPP Gr	*57%*	*1%*	*18%*	*44%*	*-9%*	*22%*	*12%*
Provisions	97	133	173	272	41	35	39
Net Profits	822	292	335	472	68	77	81
Profit Gr%	*288%*	*-64%*	*15%*	*41%*	*-3%*	*24%*	*19%*
NIM% (Cal.)	7.1%	5.5%	5.0%	5.3%	8.0%	7.8%	7.1%
Cost to Income%	38%	57%	60%	59%	55%	61%	60%

Std/Fig in Rs Cr

❑ Cost of fund has declined owing to increase share of deposits, Incremental yields on AUM has increase from 12.6% in 4QFY18 to 13.4% this quarter. However lower yield on investment assets will drag the total yield on earning assets. We expect NIM to stabilize going ahead. NII is expected to grow by 33% YoY in 2Q FY19. C/I ratio is expected to stabilise in near term as management do not intend to open more branches.

❑ AU BANK has grown at a 40% CAGR over the last 2 years. Growth is led by increased penetration and gaining market share from informal sources and NBFCs. Loan book is expected to grow at the rate of 30-40% in FY19 & 55% in 2QFY19. Recent capital infusion will ensure long term healthy growth of the company.

❑ Deposit stands at 48% of the total borrowings and is expected to grow to 66% by FY20 led by deepening the presence as per strategy and improving liability productivity.

❑ Assets quality is expected to remain stable but will be watched closely on GST impact of MSME, NBFC issue and Rajasthan loan waiver impact.

Key Trackable this Quarter

❑Assets quality trend.

❑Healthier deposit will be positive.

❑NIM & C/I ratio trend.

Stock is trading at premium. We are Neutral on the stock with 4.5x P/BV FY20e.

Axis Bank Limited

AXSB IN

Financials- Banks

CMP	**572**
Target	**664**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.8%	0.5%	9.3%	16.3%
Roa%	0.7%	0.0%	0.8%	1.4%
Div Yield%	1.0%	0.0%	0.7%	1.0%
BVPS	233	247	271	316
P/B	2.1	2.1	2.1	1.8

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	373,069	439,650	518,787	612,169	410,171	441,074	471697
Adv Growth%	*10%*	*18%*	*18%*	*18%*	*16%*	*14%*	*15%*
Deposits	414,379	453,623	534,832	631,102	416,431	447,079	476461
Dep Growth%	*16%*	*9%*	*18%*	*18%*	*10%*	*14%*	*14%*
CD Ratio%	90%	97%	97%	97%	98%	99%	99%
GNPA%	5.0%	6.8%	4.7%	4.4%	5.9%	6.5%	6.2%
NNPA%	2.1%	3.4%	2.1%	1.6%	3.1%	3.1%	2.7%
Slippages %	6.5%	9.2%	3.2%	1.4%	2.4%	1.0%	1.0%
Net Interest Income	18,093	18,618	21,828	28,212	4,540	5,167	5,111
NII Gr	*7%*	*3%*	*17%*	*29%*	*1%*	*12%*	*13%*
Other Income	11,691	10,967	12,343	13,568	2,586	2,925	3,019
Other Inc Gr%	*25%*	*-6%*	*13%*	*10%*	*2%*	*-2%*	*17%*
Pre-provision Profit	17,585	15,594	18,677	23,554	3,777	4,372	4,390
PPP Gr	*9%*	*-11%*	*20%*	*26%*	*-8%*	*2%*	*16%*
Provisions	12,117	15,473	9,351	4,715	3,140	3,338	3,081
Net Profits	3,679	276	6,174	12,434	432	701	864
Profit Gr%	*-55%*	*-93%*	*2139%*	*101%*	*36%*	*-46%*	*100%*
NIM% (Cal.)	3.4%	3.1%	3.1%	3.4%	3.2%	3.3%	3.2%
Cost to Income%	41%	47%	45%	44%	47%	46%	46%

Std/Fig in Rs Cr

❑ Cost of fund is on rising trend putting pressure on NIM, however expected lower slippages, assets re-pricing at higher MCLR and interest recovery from NPA accounts is likely to provide some support to NIM at current level. NII is expected to grow by 13% in 2Q FY19.

❑ Loan book grew by 14% majorly on account of retail and SME assets. Corporate loan mix has shrunken to 40% in FY18 against 46% in FY16. Further management has also shifted its focus towards better rated corporate client and working capital loans which we believe will drive the loan book towards 18% in FY19.

❑ Slippages ratio normalized during the quarter at 1.03% from 4.04% in Q4FY18. About 88% of corporate slippages were from BB and below rated watch list. We expect slippages and credit cost to remain elevated in 2Q FY19, but having PCR at 69%, credit cost would normalize from 2H FY19.

❑ Announced the appointment Amitabh Chaudhry as new MD and CEO from Jan 2019. Changes at senior level management and strategy would be key event to watch in the near term.

Key Trackable this Quarter

❑ Slippages and trend in BB stress pool will be watched closely.

❑Trend in Recovery and up gradation.

❑Movement in NIM.

We value the stock at 2.1x P/BV FY20e and recommend BUY.

Bank of Baroda

BOB IN

Financials- Banks

CMP	**103**
Target	**163**
Upside	**58%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	3.4%	-5.8%	6.9%	11.0%
Roa%	0.2%	-0.3%	0.4%	0.6%
Div Yield%	0.7%	0.0%	0.5%	1.9%
BVPS	174	164	175	195
P/B	1.0	0.9	0.6	0.5

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	383,259	427,432	491,547	565,279	387,302	414,517	429905
Adv Growth%	*0%*	*12%*	*15%*	*15%*	*9%*	*10%*	*11%*
Deposits	601,675	591,315	692,319	785,109	583,212	581,484	597091
Dep Growth%	*5%*	*-2%*	*17%*	*13%*	*3%*	*2%*	*2%*
CD Ratio%	64%	72%	71%	72%	66%	71%	72%
GNPA%	10.5%	12.3%	9.6%	6.5%	11.2%	12.5%	12.1%
NNPA%	4.7%	5.5%	4.0%	2.5%	5.1%	5.4%	5.2%
Slippages %	4.7%	7.3%	3.5%	2.0%	1.0%	1.2%	1.1%
Net Interest Income	13,513	15,522	18,961	22,015	3,721	4,381	4,605
NII Gr	*6%*	*15%*	*22%*	*16%*	*9%*	*29%*	*24%*
Other Income	6,758	6,657	5,620	6,531	1,737	1,148	1,333
Other Inc Gr%	*35%*	*-1%*	*-16%*	*16%*	*11%*	*-26%*	*-23%*
Pre-provision Profit	10,975	12,006	13,704	16,204	3,042	3,006	3,355
PPP Gr	*24%*	*9%*	*14%*	*18%*	*13%*	*13%*	*10%*
Provisions	8,502	14,796	8,937	8,028	2,329	2,166	2,428
Net Profits	1,383	(2,432)	3,081	5,396	355	528	602
Profit Gr%	*-126%*	*-276%*	*227%*	*75%*	*-36%*	*160%*	*70%*
NIM% (Cal.)	2.1%	2.3%	2.6%	2.7%	2.3%	2.6%	2.7%
Cost to Income%	46%	46%	44%	43%	44%	46%	44%

Std/Fig in Rs Cr

- Net interest Income growth is expected to remain healthy at 24% YoY, however lower other income can drag the total income growth at 9% YoY. We expect operating profit growth of 10% during the quarter.

- Advances growth has shown healthy recovery despite NPA issues, driven by robust retail growth (mainly in home loans). Further, advances growth is expected to be 11% in 2Q FY19 led by SME and corporate book.

- Due to incremental slippages from stress pool and MTM losses, total provisions are expected to remain elevated in near term. But the normalization of situation will give significant boost to earnings in FY20.

- Management expects NPA to recede going forward due to lower slippages and higher recoveries. Watchlist declined by 14% sequentially at Rs 8600 Cr. Bank Baroda is in a better position among PSU banks with 60% calculated PCR.

Key Trackable this Quarter

- Slippages trend, Recovery and up-gradation.
- Merger details
- NIM performance

We value the stock at 0.9x P/BV FY20e and recommend BUY.

Bank of India

BOI IN

Financials- Banks

CMP	**81**
Target	**82**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	-4.8%	-17.8%	-2.7%	3.3%
Roa%	-0.3%	-1.0%	-0.2%	0.2%
Div Yield%	0.0%	0.0%	0.0%	0.0%
BVPS	308	204	198	204
P/B	0.5	0.5	0.4	0.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	366,482	341,380	348,208	376,064	364,502	327,775	328052
Adv Growth%	*2%*	*-7%*	*2%*	*8%*	*0%*	*-10%*	*-10%*
Deposits	540,032	520,854	519,713	553,036	543,716	514,604	504695
Dep Growth%	*5%*	*-4%*	*0%*	*6%*	*8%*	*-5%*	*-7%*
CD Ratio%	68%	66%	67%	68%	67%	64%	65%
GNPA%	13.2%	16.6%	13.8%	10.7%	12.6%	16.7%	17.1%
NNPA%	6.9%	8.3%	6.8%	5.3%	6.5%	8.5%	8.2%
Slippages %	6.1%	11.0%	4.0%	1.8%	0.6%	2.1%	1.0%
Net Interest Income	11,826	10,506	12,321	12,746	2,908	3,354	2,942
NII Gr	*1%*	*-11%*	*17%*	*3%*	*7%*	*32%*	*1%*
Other Income	6,772	5,734	4,404	4,971	1,706	830	984
Other Inc Gr%	*85%*	*-15%*	*-23%*	*13%*	*-15%*	*-48%*	*-42%*
Pre-provision Profit	9,733	7,139	6,756	7,491	2,233	1,869	1,571
PPP Gr	*61%*	*-27%*	*-5%*	*11%*	*-10%*	*-21%*	*-30%*
Provisions	12,105	15,772	9,043	5,736	1,953	2,564	2,459
Net Profits	(1,558)	(6,044)	(955)	1,158	179	95	(587)
Profit Gr%	*74%*	*-288%*	*84%*	*221%*	*41%*	*8%*	*-428%*
NIM% (Cal.)	2.1%	1.9%	2.2%	2.2%	2.0%	2.4%	2.1%
Cost to Income%	48%	56%	60%	58%	52%	55%	60%

Std/Fig in Rs Cr

- Bank is under PCA list of RBI due to which its loan book has been shrinking continuously. Its loan book has contracted by 10% in 1Q FY19. We expect the bank to continue reduce its corporate exposure and hence interest income growth will remain under pressure.
- Elevated credit cost, MTM loss and PCA impact will continue to haunt the bank till FY19. We see no improvement in profitability unless and until there is significant recovery and up-gradation from NPA.
- BOI has 67% PCR which is the key positive but high exposure to NCLT cases and latest turbulence in power sector would have hangover of significant haircut going forward.
- BOI has Rs 8799 Cr of restructured assets which can be major source of slippages going forward.

Key Trackable this Quarter

- Trend in recovery and up-gradation.
- Improvement in capital ratio will be important for the bank.
- Slippages trend.

We value the stock at 0.4x P/BV FY20e. NEUTRAL.

Canara Bank

CBK IN

CMP	**232**
Target	**278**
Upside	**20%**
Rating	**BUY**

Financials- Banks

	FY17	FY18	FY19E	FY20E
Roe%	3.4%	-12.2%	3.7%	9.9%
Roa%	0.2%	-0.7%	0.2%	0.5%
Div Yield%	0.3%	0.0%	0.0%	2.2%
BVPS	564	486	504	556
P/B	0.5	0.5	0.5	0.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	342,009	381,703	427,507	470,258	358,255	386,253	401246
Adv Growth%	*5%*	*12%*	*12%*	*10%*	*10%*	*13%*	*12%*
Deposits	495,275	524,772	593,760	653,136	496,440	533,274	549652
Dep Growth%	*3%*	*6%*	*13%*	*10%*	*3%*	*10%*	*11%*
CD Ratio%	69%	73%	72%	72%	72%	72%	73%
GNPA%	9.6%	11.8%	9.4%	7.3%	10.5%	11.1%	10.5%
NNPA%	6.3%	7.5%	5.5%	4.1%	7.0%	6.9%	6.4%
Slippages %	3.8%	7.7%	3.4%	2.0%	1.1%	1.2%	0.7%
Net Interest Income	9,872	12,163	15,406	16,200	2,783	3,883	3,607
NII Gr	*1%*	*23%*	*27%*	*5%*	*14%*	*43%*	*30%*
Other Income	7,554	6,943	6,569	6,513	1,936	1,833	1,565
Other Inc Gr%	*55%*	*-8%*	*-5%*	*-1%*	*9%*	*-13%*	*-19%*
Pre-provision Profit	8,914	9,548	11,039	11,672	2,480	2,933	2,534
PPP Gr	*25%*	*7%*	*16%*	*6%*	*16%*	*19%*	*2%*
Provisions	7,272	16,109	9,057	5,857	2,157	2,582	2,313
Net Profits	1,122	(4,222)	1,358	3,838	260	281	146
Profit Gr%	*140%*	*-476%*	*132%*	*183%*	*-27%*	*12%*	*-44%*
NIM% (Cal.)	1.8%	2.2%	2.5%	2.4%	2.0%	2.8%	2.5%
Cost to Income%	49%	50%	50%	49%	47%	49%	51%

Std/Fig in Rs Cr

- Net Interest Income is expected to grow by 30% due to assets growth improvement and lower interest income reversal. However operating profit growth is expected to remain muted due to lower other income growth during the quarter. Credit cost is expected to remain elevated during the quarter and hence we expect earnings to remain muted.
- Advances growth is expected to be around 12% YoY backed by strong retail and SME growth.
- CANBK showed resilient recovery from the stressed assets, after rising its NPA cycle. Recovery & up gradation has stood at Rs 4208 Cr during 1Q FY19. Management expects slippages to restrict around Rs 2000 Cr per quarter going forward where as recovery and up-gradation expectation is Rs 16k-17k Cr in FY19. We expect assets quality in improving trend.
- Canara Bank has Rs 27000 Cr of credit exposure in Kerala, out of this Rs 11000 Cr is agriculture loan. Kerala flood can have significant on credit book of the bank. Management commentary on outlook of flood impact will be important.

Key Trackable this Quarter

- Slippages trend- Slippages under management guidance will be positive.
- Recovery and up-gradation trend. Pace of NCLT cases resolution.
- Management commentary on power companies development to NCLT.

We value the stock at 0.5x P/BV FY20e. BUY.

City Union Bank Limited

CUBK IN

Financials- Banks

CMP	**169**
Target	**159**
Upside	**-6%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	15.2%	15.3%	15.3%	16.0%
Roa%	1.5%	1.6%	1.6%	1.7%
Div Yield%	0.2%	0.2%	0.3%	0.4%
BVPS	54	63	72	84
P/B	2.5	2.7	2.3	2.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	23,833	27,853	32,588	38,454	25,045	27,853	29303
Adv Growth%	*13%*	*17%*	*17%*	*18%*	*14%*	*17%*	*17%*
Deposits	30,116	32,853	37,893	44,713	30,882	33,597	34073
Dep Growth%	*11%*	*9%*	*15%*	*18%*	*9%*	*10%*	*10%*
CD Ratio%	79%	85%	86%	86%	81%	83%	86%
GNPA%	2.8%	3.0%	2.9%	3.0%	3.1%	3.0%	2.9%
NNPA%	1.7%	1.7%	1.6%	1.6%	1.8%	1.7%	1.6%
Slippages %	2.3%	2.5%	2.0%	2.1%	0.6%	0.5%	0.5%
Net Interest Income	1,199	1,430	1,616	1,913	355	375	397
NII Gr	*22%*	*19%*	*13%*	*18%*	*18%*	*9%*	*12%*
Other Income	484	532	524	555	155	129	132
Other Inc Gr%	*18%*	*10%*	*-2%*	*6%*	*49%*	*-5%*	*-15%*
Pre-provision Profit	994	1,208	1,284	1,522	320	299	317
PPP Gr	*19%*	*22%*	*6%*	*19%*	*35%*	*1%*	*-1%*
Provisions	301	418	347	381	129	78	86
Net Profits	503	592	684	833	145	162	169
Profit Gr%	*13%*	*18%*	*16%*	*22%*	*17%*	*15%*	*17%*
NIM% (Cal.)	3.8%	4.0%	4.0%	4.0%	4.2%	4.1%	4.2%
Cost to Income%	41%	38%	40%	38%	37%	41%	40%

Std/Fig in Rs Cr

- City Union Bank has one of the best NIM in the industry at 4.24% given its focus on secured high yielding assets (MSME and traders constitutes 51% of the portfolio). However due to rising cost, NIM will have some pressure going forward. NII is expected to grow by 12% YoY in 2Q FY19.
- Opex growth is expected at 11% YoY led by control in cost and lower credit cost will led the profitability growth around 17% in 2Q FY19.
- Bank has been steadily growing its portfolio with an average rate of 16%-17%. Loan book is expected to grow by 17% YoY in 2Q FY19 led by healthy growth in retail and MSME book.
- Assets quality is expected to remain stable. Impact of GST on MSME portfolio of CUB was minimal. Hence credit cost is expected to remain under control.

Key Trackable this Quarter

- Pick up in deposit growth to match loan growth.
- Assets quality trend.
- NIM performance.

We value the stock at 1.9x P/BV FY20e and recommend NEUTRAL.

DCB Bank Limited

DCBB IN

Financials- Banks

CMP	**149**
Target	**168**
Upside	**13%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	10.0%	9.8%	10.5%	12.4%
Roa%	0.9%	0.9%	0.9%	1.0%
Div Yield%	0.3%	0.5%	0.7%	0.8%
BVPS	77	91	100	112
P/B	2.2	1.8	1.5	1.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	15,818	20,337	25,421	31,776	17,395	21,243	22266
Adv Growth%	*22%*	*29%*	*25%*	*25%*	*20%*	*31%*	*28%*
Deposits	19,289	24,007	30,263	37,829	20,567	25,032	26350
Dep Growth%	*29%*	*24%*	*26%*	*25%*	*16%*	*31%*	*28%*
CD Ratio%	82%	85%	84%	84%	85%	85%	85%
GNPA%	1.6%	1.8%	1.8%	1.9%	1.8%	1.9%	1.9%
NNPA%	0.8%	0.7%	0.7%	0.7%	0.9%	0.7%	0.7%
Slippages %	2.0%	2.2%	1.9%	1.7%	0.5%	0.5%	0.5%
Net Interest Income	797	995	1,146	1,343	248	273	280
NII Gr	*29%*	*25%*	*15%*	*17%*	*30%*	*17%*	*13%*
Other Income	249	311	359	454	65	83	85
Other Inc Gr%	*13%*	*25%*	*15%*	*27%*	*6%*	*-3%*	*30%*
Pre-provision Profit	418	525	618	794	124	141	148
PPP Gr	*20%*	*26%*	*18%*	*29%*	*23%*	*4%*	*19%*
Provisions	111	139	139	169	30	33	34
Net Profits	200	245	310	407	59	70	75
Profit Gr%	*3%*	*23%*	*26%*	*31%*	*21%*	*7%*	*27%*
NIM% (Cal.)	3.9%	3.9%	3.6%	3.4%	4.3%	4.0%	3.9%
Cost to Income%	60%	60%	59%	56%	60%	60%	59%

Std/Fig in Rs Cr

❑ Rising bond yield and pricing pressure on loan assets have led to NIM under pressure. 40% of the loan book is mortgage loan which is highly competitive and hence facing pricing pressure from the peers. We expect NIM to remain under pressure.

❑ Slowing the pace of expansion will lead to lower opex growth and moreover with the maturity of older branches C/I ratio could improve significantly over FY20. DCB bank has the highest C/I ratio of 60% as on FY18. We expect C/I ratio in declining trend going forward.

❑ Loan book of DCB BANK has registered CAGR of 25% in last 5 years and it is very likely that due to growing SME sector in India, gaining market share from PSU banks will add another 25% CAGR over the next 2 years.

❑ We expect assets quality to remain stable with GNPA at 1.9% and slippages ratio of 0.5%.

Key Trackable this Quarter

❑ Downward trend in C/I ratio will be positive for the company.

❑ NIM performance.

❑ Slippages trend.

We value the stock at 1.5x P/BV FY20e and recommend ACCUMULATE.

Equitas Holdings Limited

EQUITAS IN

Financials- Banks

CMP	**116**
Target	**160**
Upside	**38%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8.9%	1.4%	9.3%	13.6%
Roa%	2.0%	0.3%	1.4%	1.8%
Div Yield%	0.0%	0.0%	0.0%	0.0%
Book Value	66	67	73	84
P/B	2.6	2.1	1.6	1.4

	FY17	FY18	FY19E	FY 20E	Q2FY18	Q1FY19	Q2FY19E
AUM	7,176	8,239	11,370	15,349	7,326	8,925	9,597
AUM Growth%	*17%*	*15%*	*38%*	*35%*	*3%*	*27%*	*31%*
Borrowings	6,543	10,607	14,766	19,553	7,373	11,635	12,464
Deposit	1,885	4,719	9,887	15,663	3,098	5,721	6,855
Deposit Growth%		*150%*	*110%*	*58%*	*0%*	*154%*	*121%*
GNPA%	3.5%	2.7%	2.6%	3.0%	5.8%	2.8%	2.8%
NNPA%	1.5%	1.4%	1.0%	0.9%	2.8%	1.5%	1.5%
Net Interest Income	855	925	1,138	1,531	230	254	277
NII Gr	*42%*	*8%*	*23%*	*34%*	*14%*	*18%*	*21%*
Opex	615	891	993	1,175	219	239	241
Opex Growth%	*71%*	*45%*	*12%*	*18%*	*69%*	*5%*	*10%*
Pre-provision Profit	354	223	421	725	44	76	103
PPP Gr	*11%*	*-37%*	*89%*	*72%*	*-68%*	*10%*	*132%*
Provisions	103	172	111	163	27	21	25
Net Profits	159	31	221	366	11	36	51
Profit Gr%	*-5%*	*-80%*	*604%*	*66%*	*-76%*	*127%*	*364%*
NIM% (Cal.)	11.3%	8.7%	8.0%	8.1%	9.7%	8.0%	7.8%
Cost to Income%	63%	80%	70%	62%	83%	76%	70%

Conso/Fig in Rs Cr

❑NIM continues to remain under pressure it has decreased from 8% to 7.2% QoQ with the rising share of investment book. NIM is expected to remain under pressure in near term with the rising bond yield scenario.

❑ C/I ratio has fallen to 76% from 80% in FY18. C/I ratio is expected to further decline due to slow down in expansion and increasing the productivity.

❑ Advances picked up strongly at 27% growth YoY in 1QFY19 and with the increasing demand for the vehicle finance, loan growth is expected to grow at 31% in 2QFY19.

❑ Deposits increased to 50% of the borrowing against 45% in FY18 and CASA has reached to 32% of the deposits. Deposits are expected to reach 80% of the borrowing in FY19.

❑ Assets quality has slightly deteriorated, GNPA increasing to 2.84% from 2.73% sequentially. MFI GNPA at less than 1% gives confidence for lower credit cost in FY19. We have factored credit cost of 1% on total AUM against 2.2% in FY18.

Key Trackable this Quarter

❑ Improvement in C/I ratio will be positive

❑ NIM performance.

❑ AUM growth of more than 30% will be important

We value the stock at 2x P/BV FY20e and recommend BUY.

The Federal Bank Limited

FB IN

Financials- Banks

CMP	**70**
Target	**92**
Upside	**31%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9.8%	8.3%	9.4%	11.6%
Roa%	0.8%	0.7%	0.8%	0.9%
Div Yield%	1.0%	1.1%	1.7%	2.1%
BVPS	52	62	67	73
P/B	1.8	1.5	1.0	1.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	73,336	91,957	113,107	135,729	80,645	94,297	99193
Adv Growth%	*26%*	*25%*	*23%*	*20%*	*25%*	*24%*	*23%*
Deposits	97,665	111,992	131,520	161,582	97,211	111,242	114015
Dep Growth%	*23%*	*15%*	*17%*	*23%*	*13%*	*16%*	*17%*
CD Ratio%	75%	82%	86%	84%	83%	85%	87%
GNPA%	2.3%	3.0%	2.8%	2.5%	2.4%	3.0%	3.0%
NNPA%	1.3%	1.7%	1.5%	1.3%	1.3%	1.7%	1.7%
Slippages %	1.9%	2.8%	1.7%	1.1%	0.4%	0.5%	0.4%
Net Interest Income	3,053	3,583	4,201	5,078	899	980	1,047
NII Gr	*22%*	*17%*	*17%*	*21%*	*24%*	*22%*	*16%*
Other Income	1,082	1,159	1,211	1,439	287	271	298
Other Inc Gr%	*38%*	*7%*	*4%*	*19%*	*10%*	*-18%*	*4%*
Pre-provision Profit	1,925	2,291	2,673	3,347	583	603	665
PPP Gr	*35%*	*19%*	*17%*	*25%*	*23%*	*8%*	*14%*
Provisions	618	947	853	915	177	199	193
Net Profits	831	879	1,197	1,605	264	263	311
Profit Gr%	*75%*	*6%*	*36%*	*34%*	*31%*	*25%*	*18%*
NIM% (Cal.)	3.1%	3.0%	2.9%	3.0%	3.2%	3.0%	3.2%
Cost to Income%	53%	52%	51%	49%	51%	52%	51%

Std/Fig in Rs Cr

❑We expect pressure on NIM as bond yield has increased by more than 150 bps within one year hence it will result in cost of fund to rise for Federal Bank going forward. NII growth is expected around 16% YoY whereas operating profit should grow around 14% YoY during 2Q FY19.

❑ Kerala Flood- Federal bank has credit exposure of 32% in Kerala of which around Rs 25000 is related to retail, SME and mid-market segment. However credit exposure of only Rs 1500 Cr is related to most impacted areas of flood. Management guided that there could be increase of 20-30% slippages in non-corporate Kerala book in near term, however management has not altered its earlier guidance on the performance of bank till now and will be able to analyse the impact during 2Q FY19 results.

❑ We believe the current situation will not hamper the long term growth story of Federal Bank, however in near term assets quality may see some impact.

Key Trackable this Quarter

❑ Management commentary on Flood impact.

❑ NIM performance

❑ Improvement in C/I ratio

We value the stock at 1.25x P/BV FY20e and recommend BUY.

HDFC Bank Limited

HDFCB IN

Financials- Banks

CMP	**2031**
Target	**2403**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17.9%	17.9%	16.5%	16.4%
Roa%	1.8%	1.8%	1.8%	1.9%
Div Yield%	0.8%	0.7%	0.7%	0.9%
BVPS	349	410	535	604
P/B	4.1	4.6	3.8	3.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	554568	658333	790000	948000	604867	708649	751124
Adv Growth%	*19%*	*19%*	*20%*	*20%*	*22%*	*22%*	*24%*
Deposits	643640	788771	877777	1089655	689346	805785	834582
Dep Growth%	*18%*	*23%*	*11%*	*24%*	*16%*	*20%*	*21%*
CD Ratio%	86%	83%	90%	87%	88%	88%	90%
GNPA%	1.1%	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%
NNPA%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Slippages %	1.3%	2.0%	1.7%	1.3%	0.4%	0.5%	0.5%
Net Interest Income	33139	40095	46729	56739	9752	10814	11329
NII Gr	*20%*	*21%*	*17%*	*21%*	*22%*	*15%*	*16%*
Other Income	12296	15220	17263	20583	3606	3818	4319
Other Inc Gr%	*14%*	*24%*	*13%*	*19%*	*24%*	*9%*	*20%*
Pre-provision Profit	25732	32625	38133	46445	7818	8648	9310
PPP Gr	*20%*	*27%*	*17%*	*22%*	*30%*	*15%*	*19%*
Provisions	3593	5927	6255	7100	1476	1629	1642
Net Profits	14550	17487	20898	25793	4151	4601	5019
Profit Gr%	*18%*	*20%*	*20%*	*23%*	*20%*	*18%*	*21%*
NIM% (Cal.)	4.4%	4.6%	4.5%	4.6%	4.5%	4.4%	4.3%
Cost to Income%	43%	41%	40%	40%	41%	41%	41%

Std/Fig in Rs Cr

❑ Due to rise in bond yield of 150 bps within a year, cost of fund has increased for HDFC Bank. Hence NIM has come under pressure but equity capital raised will support the NIM at current level of 4.2% (reported) in 2Q FY19. Management believe NIM of 4.3-4.5% is realistic over the longer period. NII is expected to grow by 16% YoY.

❑ Higher bond yield is likely to result in MTM losses but volatility in rupee will also contribute in higher forex income. Hence we expect other income to grow around 20% range in 2Q FY19.

❑ Loan book constitutes 46% retail asset and the rest is wholesale and SME portfolio. Corporate loan book increased to 18% in 1Q FY19, after moderation in Q4FY18. However, retail assets have shown tremendous growth in recent times backed by healthy vehicle demand and personal segment. We expect loan book to grow by 24% in 2Q FY19.

❑ We expect assets quality to remain stable with GNPA/NNPA at 1.3%/0.4% in 2Q FY19.

Key Trackable this Quarter

❑ Management commentary on succession plan for MD & CEO.

❑ Assets quality in agriculture book.

❑ NIM performance

We value the stock at 4x P/BV FY20e. BUY.

ICICI Bank Limited

ICICIBC IN

Financials- Banks

CMP	**304**
Target	**339**
Upside	**12%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	10.3%	6.6%	5.0%	11.8%
Roa%	1.3%	0.8%	0.6%	1.3%
Div Yield%	1.0%	0.5%	0.8%	1.2%
BVPS	156	164	170	188
P/B	1.6	1.7	1.8	1.6

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	464,232	512,395	579,007	665,858	482,780	516,289	540714
Adv Growth%	*7%*	*10%*	*13%*	*15%*	*6%*	*11%*	*12%*
Deposits	490,039	560,975	609,481	693,602	498,643	546,878	569172
Dep Growth%	*16%*	*14%*	*9%*	*14%*	*11%*	*12%*	*14%*
CD Ratio%	95%	91%	95%	96%	97%	94%	95%
GNPA%	7.9%	8.8%	7.0%	4.0%	7.9%	8.8%	8.6%
NNPA%	4.9%	4.8%	2.8%	1.2%	4.4%	4.2%	3.8%
Slippages %	7.9%	6.4%	3.0%	1.5%	1.0%	0.8%	0.8%
Net Interest Income	21,737	23,026	25,580	29,226	5,709	6,102	6,282
NII Gr	*2%*	*6%*	*11%*	*14%*	*9%*	*9%*	*10%*
Other Income	19,504	17,420	14,726	15,924	5,186	3,852	3,515
Other Inc Gr%	*27%*	*-11%*	*-15%*	*8%*	*-43%*	*14%*	*-32%*
Pre-provision Profit	26,487	24,742	23,422	27,319	6,987	5,808	5,589
PPP Gr	*11%*	*-7%*	*-5%*	*17%*	*-34%*	*12%*	*-20%*
Provisions	15,208	17,307	16,270	6,653	4,503	5,971	4,294
Net Profits	9,801	6,777	5,366	13,640	2,058	(120)	971
Profit Gr%	*1%*	*-31%*	*-21%*	*154%*	*-34%*	*-106%*	*-53%*
NIM% (Cal.)	3.2%	3.0%	3.0%	3.1%	3.2%	3.2%	3.2%
Cost to Income%	36%	39%	42%	39%	36%	42%	46%

Std/Fig in Rs Cr

❑ We expect NIM to largely remain stable in 2Q FY19 as the lower interest reversal will provide cushion against increasing cost of fund. Increase in MCLR will also provide support to yield.

❑ We expect loan growth of 12% in 2Q FY19 for ICICI Bank on the back of retail and SME assets growth. Corporate loan growth is expected to remain muted due to consolidation in corporate and overseas book. Management targets to increase retail loan share to 60% from current 57%.

❑ Management has guided for 70% PCR ratio going forward from current 66% and hence through FY19 credit cost is expected to remain in the higher range.

❑ Slippage ratio is expected to remain elevated around 75 bps for the quarter as the potential stress assets pool is high at around Rs 24600 Cr. However due to pickup in recovery and up-gradation GNPA/NNPA ratio is expected to stabilize and gradually will trend downward.

❑ On the management front, things are getting settled. One should watch for further senior level changes.

Key Trackable this Quarter

❑ Movement in NCLT resolution and recovery & up-gradation

❑ Slippages trend within watch-list. Higher slippages will be disappointment.

❑ NIM performance will be closely watched.

We value the stock at 1.8x P/BV FY20e and recommend ACCUMULATE.

IndusInd Bank Limited

IIB IN

Financials- Banks

CMP	**1639**
Target	**2025**
Upside	**24%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	15.0%	16.2%	17.3%	19.0%
Roa%	1.8%	1.8%	1.8%	1.9%
Div Yield%	0.4%	0.4%	0.5%	0.6%
BVPS	345	397	462	547
P/B	4.1	4.5	3.5	3.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	113,081	144,954	182,642	226,476	123,181	150,675	156440
Adv Growth%	*28%*	*28%*	*26%*	*24%*	*24%*	*29%*	*27%*
Deposits	126,572	151,639	198,524	250,250	141,441	158,862	166425
Dep Growth%	*36%*	*20%*	*31%*	*26%*	*26%*	*19%*	*18%*
CD Ratio%	89%	96%	92%	91%	87%	95%	94%
GNPA%	0.9%	1.2%	1.2%	1.2%	1.1%	1.2%	1.2%
NNPA%	0.4%	0.5%	0.4%	0.4%	0.4%	0.5%	0.4%
Slippages %	1.3%	1.6%	1.0%	0.9%	0.4%	0.3%	0.3%
Net Interest Income	6,063	7,497	9,179	11,459	1,821	2,122	2,227
NII Gr	*34%*	*24%*	*22%*	*25%*	*25%*	*20%*	*22%*
Other Income	4,171	4,750	5,585	6,697	1,188	1,302	1,345
Other Inc Gr%	*27%*	*14%*	*18%*	*20%*	*22%*	*12%*	*13%*
Pre-provision Profit	5,451	6,656	8,209	10,205	1,634	1,911	1,983
PPP Gr	*32%*	*22%*	*23%*	*24%*	*27%*	*20%*	*21%*
Provisions	1,091	1,175	1,395	1,489	294	350	338
Net Profits	2,868	3,606	4,450	5,753	880	1,036	1,069
Profit Gr%	*25%*	*26%*	*23%*	*29%*	*25%*	*24%*	*21%*
NIM% (Cal.)	4.1%	4.0%	3.9%	3.9%	4.2%	4.3%	4.3%
Cost to Income%	47%	46%	44%	44%	46%	44%	45%

Std/Fig in Rs Cr

- Continuous rise in bond yield and lower yield on corporate loan book driven by highly competitive pressure has led NIM to come under pressure. Management expects NIM to remain in the range of 3.9-4% going forward. We expect NII growth of around 22% YoY led by healthy advances growth.
- We expect other income growth of 13% YoY in 2Q FY19 under which fee income growth should be around 24%. Lower trading gain on investments should be offset by higher forex gain.
- We expect loan growth of 27% during 2Q FY19 backed by across the segment growth. Vehicle sales have been strong during the quarter and IIB being a major player would continue to benefit from it. On the other hand corporate book is also growing as fast pace of 30% due to increase in market share.
- Assets quality should remain stable with slippages ratio of around 30 bps during the quarter.

Key Trackable this Quarter

- Assets quality improvement in corporate lending will be key positive.
- NIM performance.
- Strong growth in consumer loan division will be important.

We value the stock at 3.7x P/BV FY20e. Recommend BUY.

Karur Vysya Bank Limited

KVB IN

Financials- Banks

CMP	**80**
Target	**96**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	12.6%	6.1%	5.6%	12.5%
Roa%	1.0%	0.5%	0.5%	1.1%
Div Yield%	2.3%	0.6%	1.3%	2.5%
BVPS	83	86	89	96
P/B	1.4	1.2	0.9	0.8

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	40,908	44,800	49,728	56,193	43,435	46,406	48213
Adv Growth%	*5%*	*10%*	*11%*	*13%*	*11%*	*11%*	*11%*
Deposits	53,700	56,890	62,160	71,130	56,400	57,554	59522
Dep Growth%	*7%*	*6%*	*9%*	*14%*	*8%*	*5%*	*6%*
CD Ratio%	76%	79%	80%	79%	77%	81%	81%
GNPA%	3.6%	6.6%	7.1%	6.7%	4.8%	7.4%	7.4%
NNPA%	2.5%	4.2%	4.0%	3.6%	3.2%	4.5%	4.4%
Slippages %	3.4%	5.2%	3.6%	1.7%	1.1%	1.8%	0.7%
Net Interest Income	2,074	2,298	2,503	2,724	555	584	620
NII Gr	*16%*	*11%*	*9%*	*9%*	*12%*	*8%*	*12%*
Other Income	782	900	963	1,064	230	255	236
Other Inc Gr%	*11%*	*15%*	*7%*	*10%*	*6%*	*8%*	*3%*
Pre-provision Profit	1,571	1,777	1,869	2,079	427	459	467
PPP Gr	*21%*	*13%*	*5%*	*11%*	*12%*	*2%*	*9%*
Provisions	688	1,274	1,363	800	321	423	343
Net Profits	605	346	356	844	76	46	82
Profit Gr%	*7%*	*-43%*	*3%*	*137%*	*-40%*	*-69%*	*8%*
NIM% (Cal.)	3.7%	3.8%	3.8%	3.7%	3.8%	3.8%	3.9%
Cost to Income%	45%	44%	46%	45%	46%	45%	46%

Std/Fig in Rs Cr

- ❑ NIM is expected to remain under pressure due to increase in cost of fund. Lower deposits growth will increase market borrowing adding more pressure on cost of fund.
- ❑ Due to lower PCR and higher slippages in recent quarters will impact in higher credit cost in FY19.
- ❑ We expect loan growth in the range of 11-12% as corporate book growth will continue to moderate due to focus on SME and retail assets.
- ❑ Slippages increased to 1.83% during 1Q FY19. Corporate slippages were mainly from watchlist. But higher slippage from SME (Rs 241 net) was key negative. We believe SME slippage was mainly on account of GST issue. We expect corporate slippages to reduce significantly due to negligible watchlist account.

Key Trackable this Quarter

- ❑ Slippages trend in SME.
- ❑ NIM performance.
- ❑ Traction in fee income.

We value the stock at 1x P/BV FY20e. BUY

RBL Bank Limited

RBK IN

Financials- Banks

CMP	**526**
Target	**577**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	12.2%	11.5%	12.9%	16.2%
Roa%	1.0%	1.1%	1.3%	1.4%
Div Yield%	0.4%	0.4%	0.5%	0.6%
BVPS	116	159	178	206
P/B	4.3	3.0	3.0	2.6

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	29,449	40,268	53,556	69,623	33,576	42,198	45328
Adv Growth%	*39%*	*37%*	*33%*	*30%*	*35%*	*36%*	*35%*
Deposits	34,588	43,902	58,214	77,359	36,569	44,950	47216
Dep Growth%	*42%*	*27%*	*33%*	*33%*	*31%*	*27%*	*29%*
CD Ratio%	85%	92%	92%	90%	92%	94%	96%
GNPA%	1.2%	1.4%	1.3%	1.3%	1.4%	1.4%	1.4%
NNPA%	0.6%	0.8%	0.7%	0.7%	0.8%	0.8%	0.7%
Slippages %	2.5%	1.9%	1.4%	1.3%	0.3%	0.4%	0.3%
Net Interest Income	1,221	1,766	2,417	3,161	420	553	581
NII Gr	*49%*	*45%*	*37%*	*31%*	*39%*	*46%*	*38%*
Other Income	755	1,068	1,436	1,871	241	326	340
Other Inc Gr%	*54%*	*41%*	*34%*	*30%*	*43%*	*27%*	*41%*
Pre-provision Profit	920	1,331	1,869	2,465	303	432	442
PPP Gr	*70%*	*45%*	*40%*	*32%*	*38%*	*39%*	*46%*
Provisions	239	365	481	483	75	140	120
Net Profits	446	635	914	1,308	151	190	212
Profit Gr%	*53%*	*42%*	*44%*	*43%*	*68%*	*35%*	*41%*
NIM% (Cal.)	3.0%	3.4%	3.6%	3.6%	3.5%	4.0%	4.0%
Cost to Income%	53%	53%	51%	51%	54%	51%	52%

Std/Fig in Rs Cr

❑ Due to spike in bond yield, cost of fund is expected to rise significantly for RBL bank as the share of CASA is also low; however increasing share of high yield assets will support the NIM at current level. We expect stable NIM of 4% in 2Q FY19.

❑ Fee income is expected to grow by 54% YoY in 2Q FY19 on the back of rising credit card business. Opex growth should be in the range of 34% with C/I ratio of 51% as management is heavily investing in branches and new growth opportunity.

❑ Loan book is expected to grow by 35% in 2Q FY19 on the back of strong growth in non-wholesale segment; however deposits growth would be in the range of 29%.

❑ Assets quality is expected to remain stable with GNPA/NNPA at 1.4%/0.74%. Agri portfolio will be under monitor.

Key Trackable this Quarter

❑ NIM performance

❑ Stress in non-wholesale segment

❑ Growth in credit card business.

We value the stock at 2.8x P/BV FY20e.ACCUMULATE.

State Bank of India

SBIN IN

Financials- Banks

CMP	**258**
Target	**340**
Upside	**32%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.3%	-3.0%	1.7%	12.7%
Roa%	0.4%	-0.2%	0.1%	0.8%
Div Yield%	0.9%	0.0%	0.2%	2.3%
BVPS	236	246	250	283
P/B	1.2	1.0	1.0	0.9

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	1571078	1934880	2128368	2383772	1802609	1875773	1910765
Adv Growth%	*7%*	*23%*	*10%*	*12%*	*26%*	*4%*	*6%*
Deposits	2044751	2706343	2956067	3265442	2623180	2747813	2769225
Dep Growth%	*18%*	*32%*	*9%*	*10%*	*41%*	*6%*	*6%*
CD Ratio%	77%	71%	72%	73%	69%	68%	69%
GNPA%	6.9%	10.9%	9.0%	7.8%	9.8%	10.7%	10.3%
NNPA%	3.7%	5.7%	4.0%	3.3%	5.4%	5.3%	4.9%
Slippages %	3.1%	5.7%	2.6%	1.6%	0.6%	0.8%	0.6%
Net Interest Income	61860	74854	85316	93517	18586	21798	20567
NII Gr	*9%*	*21%*	*14%*	*10%*	*29%*	*24%*	*11%*
Other Income	35461	44601	36332	43128	16017	6679	8598
Other Inc Gr%	*26%*	*26%*	*-19%*	*19%*	*90%*	*-17%*	*-46%*
Pre-provision Profit	50848	59511	55930	69818	20000	11973	12541
PPP Gr	*18%*	*17%*	*-6%*	*25%*	*78%*	*1%*	*-37%*
Provisions	35992	75039	49956	23941	19137	19228	12306
Net Profits	10485	-6547	3855	30278	1582	-4876	155
Profit Gr%	*5%*	*-162%*	*159%*	*685%*	*-38%*	*-343%*	*-90%*
NIM% (Cal.)	2.7%	2.7%	2.6%	2.6%	2.8%	2.8%	2.7%
Cost to Income%	48%	50%	54%	49%	42%	58%	57%

Std/Fig in Rs Cr

❑ NII growth is expected to be around 11% YoY in 2Q FY19. Cost of fund is expected to rise but lower interest reversal will keep the yield supportive during the quarter. Other income is expected to decline by nearly 45% YoY due to higher base effect. Management has approved for stake sale in its General insurance subsidiary which will fetch Rs 481 Cr to SBI.

❑ Advances growth is expected to rise to 6% YoY led by healthy retail and SME assets growth. Corporate loan growth will remain moderate during the quarter. Deposits are also expected to grow by around 6% during the quarter. Management has guided for 10-12% loan growth for full year in FY19.

❑ Slippages are expected to improve sequentially but will remain at elevated level of 60 bps during the quarter as watch-list is still high at Rs 25000 Cr. We believe most of the stress in the system has been recognized and bank will see improvement in assets quality going forward. Higher credit cost coupled with MTM losses will keep provisioning at higher level during the quarter.

Key Trackable this Quarter

❑ Management commentary on NCLT resolution pickup

❑ Slippages trend and movement in watchlist. Outlook on Power sector.

❑ Recovery & up-gradation status.

We value the stock at 1.2x P/BV FY20e and recommend BUY.

The South Indian Bank Ltd

SIB IN

Financials- Banks

CMP	**14.15**
Target	**18**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9.0%	6.6%	3.7%	11.6%
Roa%	0.6%	0.4%	0.2%	0.6%
Div Yield%	1.9%	1.8%	3.5%	3.5%
BVPS	27	29	30	33
P/B	0.8	0.8	0.5	0.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	46,389	54,563	62,747	71,532	48,954	55,444	57276
Adv Growth%	*13%*	*18%*	*15%*	*14%*	*12%*	*19%*	*17%*
Deposits	66,117	72,030	82,562	96,016	67,142	72,488	73431
Dep Growth%	*19%*	*9%*	*15%*	*16%*	*12%*	*10%*	*9%*
CD Ratio%	70%	76%	76%	75%	73%	76%	78%
GNPA%	2.5%	3.6%	4.5%	4.2%	3.6%	4.5%	4.6%
NNPA%	1.5%	2.6%	2.8%	2.4%	2.6%	3.3%	3.0%
Slippages %	4.2%	3.9%	2.4%	1.0%	0.6%	1.1%	0.4%
Net Interest Income	1,675	1,966	2,028	2,274	503	494	506
NII Gr	*11%*	*17%*	*3%*	*12%*	*13%*	*7%*	*1%*
Other Income	716	837	727	895	280	146	183
Other Inc Gr%	*38%*	*17%*	*-13%*	*23%*	*92%*	*-33%*	*-35%*
Pre-provision Profit	1,215	1,481	1,321	1,648	460	270	331
PPP Gr	*38%*	*22%*	*-11%*	*25%*	*55%*	*-29%*	*-28%*
Provisions	614	981	1,023	660	454	232	225
Net Profits	393	335	194	652	4	23	70
Profit Gr%	*18%*	*-15%*	*-42%*	*235%*	*-96%*	*-77%*	*1512%*
NIM% (Cal.)	2.6%	2.7%	2.5%	2.4%	2.9%	2.6%	2.6%
Cost to Income%	49%	47%	52%	48%	41%	58%	52%

Std/Fig in Rs Cr

❑CASA ratio is low at 25%. NIM is expected to remain under pressure due to rising of cost of fund. Management expects NIM to be at 2.8% in FY19. NII growth is expected to be muted during the quarter.

❑ Other income is expected to de-grow by 35% due to lower treasury income during the quarter. However volatility in Rupee could add forex fee income significantly during the quarter

❑ Loan book is expected to grow around 17%, led by strong retail and SME advances growth. Management is targeting loan growth of 20%. Deposits growth would moderate at 9% growth only due to tight liquidity situation

❑ SIB's is Kerala-based bank with total lending exposure of 41% to the state and due to flood in the Kerala region the bank is likely to be at risk in the form of increased slippages. The bank has 464 branches in Kerala, out of total 855 branches

Key Trackable this Quarter

❑ Improvement in PCR is crucial for the bank.

❑ Slippages below Rs 200 Cr in the quarter would be comfortable.

❑ Management commentary on Kerala Flood impact will be closely watched.

We value the stock at 0.55x P/BV FY20e and maintain BUY.

Ujjivan Financial Services Ltd

UJJIVAN IN

Financials- Banks

CMP	**255**
Target	**271**
Upside	**6%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	14.1%	0.4%	9.5%	13.7%
Roa%	2.9%	0.1%	1.6%	2.0%
Div Yield%	4.6%	83.0%	5.5%	5.1%
Book Value	147	146	160	182
P/B	2.9	2.4	1.6	1.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	6,380	7,552	9,440	12,083	6,669	7,718	8,003
AUM Growth%	*16%*	*29%*	*25%*	*28%*	*3%*	*19%*	*20%*
Borrowings	6,292	6,019	7,097	8,691	6,469	7,775	8,166
Deposit	206	1,606	2,736	4,028	734	2,057	2,254
Deposit Growth %		*680%*	*70%*	*47%*	*0%*	*410%*	*207%*
GNPA%	0.3%	3.6%	2.5%	1.5%	5.0%	2.7%	2.7%
NNPA%	0.0%	0.7%	0.4%	0.2%	1.4%	0.3%	0.3%
Net Interest Income	807	838	1,026	1,214	186	242	247
NII Gr	*38%*	*4%*	*22%*	*18%*	*0%*	*46%*	*32%*
Opex	458	654	925	944	155	217	233
Opex Growth%	*49%*	*43%*	*41%*	*2%*	*42%*	*38%*	*50%*
Pre-provision Profit	397	323	329	531	70	83	70
PPP Gr	*75%*	*311%*	*61%*	*94%*	*-41%*	*87%*	*-1%*
Provisions	75	311	61	94	88	15	13
Net Profits	208	7	175	283	(12)	45	37
Profit Gr%	*17%*	*-96%*	*2305%*	*62%*	*116%*	*-160%*	*408%*
NIM% (Cal.)	12.2%	10.1%	10.6%	10.1%	9.5%	10.9%	10.9%
Cost to Income%	54%	67%	74%	64%	69%	72%	77%

Conso/Fig in Rs Cr

❑NIM has expanded to 11.60% from 9.23% as UJJIVAN recovered from the demonetization effect. Going ahead NIM is expected to remain under pressure with the rising share of Non-MFI segment and increase in cost of fund. NII is expected to grow by 32% YoY in 2Q FY19.

❑Cost to income ratio has increased significantly in 1QFY19 to 72% from 57% in 4QFY18. Going ahead C/I ratio is expected to remain elevated as management is planning to increase branch outlets in FY19.

❑ We expect 20% AUM book growth in 2QFY19 on the back of diversification in the affordable and SME segment. MFI growth is expected to moderate going ahead due to consolidation of business mix.

❑ Asset quality has improved to 2.7% from 3.6% QoQ while NNPA has improved from 30 bps from 70 bps QoQ. PCR ratio is maintained at a higher level of 89%. Going ahead asset quality is expected to improve as the latest 15 months portfolio is at 99.6% collection efficiency. However impact of Kerala flood and Karnataka loan waiver is to be watched closely.

Key Trackable this Quarter

❑Opex growth will be key watch.

❑ Trend in Asset Quality.

❑Deposit growth trend.

We value the stock at 1.6x P/BV FY20e. ACCUMULATE.

Union Bank of India

UNBK

Financials- Banks

CMP	**69**
Target	**84**
Upside	**22%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	2.4%	-21.6%	3.8%	8.4%
Roa%	0.1%	-1.1%	0.2%	0.4%
Div Yield%	0.0%	0.0%	0.0%	0.0%
BVPS	341	215	222	241
P/B	0.5	0.4	0.3	0.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	286,467	288,761	311,862	343,048	290,850	293,099	302484
Adv Growth%	*7%*	*1%*	*8%*	*10%*	*10%*	*5%*	*4%*
Deposits	378,391	408,501	427,208	463,578	386,025	405,860	414362
Dep Growth%	*10%*	*8%*	*5%*	*9%*	*7%*	*8%*	*7%*
CD Ratio%	76%	71%	73%	74%	75%	72%	73%
GNPA%	11.2%	15.7%	14.6%	11.7%	12.4%	16.0%	15.9%
NNPA%	6.6%	8.4%	7.1%	5.3%	6.7%	8.7%	8.1%
Slippages %	5.2%	8.0%	4.2%	1.7%	1.0%	1.8%	1.3%
Net Interest Income	8,903	9,305	10,311	10,439	2,321	2,626	2,576
NII Gr	*7%*	*5%*	*11%*	*1%*	*2%*	*17%*	*11%*
Other Income	4,965	4,990	4,191	4,251	1,217	1,208	998
Other Inc Gr%	*37%*	*1%*	*-16%*	*1%*	*7%*	*-15%*	*-18%*
Pre-provision Profit	7,430	7,540	7,369	7,399	1,939	2,089	1,769
PPP Gr	*30%*	*1%*	*-2%*	*0%*	*7%*	*2%*	*-9%*
Provisions	7,088	14,181	6,248	3,938	3,555	2,229	1,675
Net Profits	555	(5,247)	962	2,284	(1,531)	130	62
Profit Gr%	*59%*	*-1045%*	*118%*	*137%*	*-966%*	*11%*	*104%*
NIM% (Cal.)	2.2%	2.1%	2.2%	2.1%	2.2%	2.3%	2.3%
Cost to Income%	46%	47%	49%	50%	45%	46%	51%

Std/Fig in Rs Cr

❑Operating profit is expected to remain under pressure due to lower other income growth during the quarter. We expect NII growth of 11% YoY.

❑ Due to rise in bond yield, cost of fund is expected to increase going forward hence pressuring the NIM, however lower interest reversal will improve yield significantly from 2H FY19. Management expects NIM to be maintained at 2.25% for FY19.

❑ Advances growth is expected to be around 4% for 2Q FY19 on the back of retail advances. Deposits growth should be in the range of 7%.

❑ Management expects Rs 3500 Cr recovery from the NCLT account for FY19. Total recovery and up gradation is expected to be in the range of Rs 6500 -7000 Cr for FY19.

❑ Union Bank has exposure of Rs 22500 Cr in power sector of which only Rs 5200 Cr is GNPA. Due to recent tumultuous in power sector, slippages for Union bank is expected to remain elevated in near term. However increased recovery & up-gradation will result in declining GNPA ratio.

Key Trackable this Quarter

❑ Resolution in NCLT cases and pickup in recovery and up-gradation other than NCLT cases will be key trigger.

❑ Improvement in NIM and Slippages trend will be important.

We value the stock at 0.35x P/BV FY20e . BUY

Yes Bank Limited

YES IN

Financials- Banks

CMP	**206**
Target	**264**
Upside	**28%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	18.6%	17.7%	18.0%	20.3%
Roa%	1.8%	1.6%	1.5%	1.6%
Div Yield%	0.8%	0.9%	1.7%	1.9%
BVPS	97	112	130	155
P/B	3.2	2.7	1.6	1.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Net Advances	132,263	203,534	254,417	318,022	148,675	214,720	240111
Adv Growth%	*35%*	*54%*	*25%*	*25%*	*35%*	*53%*	*62%*
Deposits	142,874	200,738	242,302	302,878	157,990	213,395	223359
Dep Growth%	*28%*	*41%*	*21%*	*25%*	*23%*	*42%*	*41%*
CD Ratio%	93%	101%	105%	105%	94%	101%	108%
GNPA%	1.5%	1.3%	1.6%	1.7%	1.8%	1.3%	1.3%
NNPA%	0.8%	0.6%	0.7%	0.7%	1.0%	0.6%	0.6%
Slippages %	2.0%	4.0%	1.1%	0.9%	5.1%	0.3%	0.4%
Net Interest Income	5,797	7,737	10,218	12,624	1,885	2,219	2,409
NII Gr	*27%*	*33%*	*32%*	*24%*	*30%*	*23%*	*28%*
Other Income	4,157	5,224	6,594	7,424	1,248	1,694	1,681
Other Inc Gr%	*53%*	*26%*	*26%*	*13%*	*41%*	*50%*	*35%*
Pre-provision Profit	5,838	7,748	10,452	12,430	1,907	2,455	2,535
PPP Gr	*36%*	*33%*	*35%*	*19%*	*38%*	*44%*	*33%*
Provisions	793	1,554	2,930	2,331	447	626	569
Net Profits	3,330	4,225	5,017	6,665	1,003	1,260	1,298
Profit Gr%	*31%*	*27%*	*19%*	*33%*	*25%*	*31%*	*29%*
NIM% (Cal.)	3.2%	3.1%	3.2%	3.2%	3.7%	3.3%	3.2%
Cost to Income%	41%	40%	38%	38%	39%	37%	38%

Std/Fig in Rs Cr

- NII is expected to grow by 28% YoY driven by strong loan growth. NIM will continue to trend downwards as cost of fund is expected to rise significantly for Yes Bank. Focus on better rated corporate client will also add pressure to yield.
- Advances growth will be around 62% and deposits growth of 41% in 2Q FY19, however in the current situation with uncertainty over new management and low on capital adequacy front, growth is expected to slow down significantly in rest of the quarters of FY19.
- On the assets quality front, divergence report by RBI has not been released yet, however management said in a press release that GNPA was stable at 1.35%. We believe divergence will be a major problem for Yes Bank in near term and hence credit cost may increase significantly.
- Recently RBI did not approve the extension of Mr Rana Kapoor as MD and CEO of the bank which raised the questions on credibility of management. Further with low on capital adequacy ratio, growth of Yes Bank has come under pressure.

Key Trackable this Quarter

- Divergence report on assets quality by RBI
- Appointment of new management and ability to raise capital
- Management commentary on growth outlook going ahead

We value the stock at 1.7x P/BV FY20e and recommend BUY.

Bajaj Finance Limited

BAF IN

FINANCIALS- NBFC

CMP	**2232**
Target	**2516**
Upside	**13%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	21.7%	20.3%	21.5%	24.0%
Roa%	3.3%	3.6%	3.9%	4.1%
Div Yield%	0.3%	0.2%	0.2%	0.3%
Book Value	176	287	335	419
P/B	6.7	6.2	6.7	5.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	60,194	84,033	106,186	140,166	72,139	93,314	95,945
AUM Growth%	*36%*	*40%*	*26%*	*32%*	*38%*	*35%*	*33%*
Borrowings	49,250	61,567	81,682	109,504	52,891	67,425	73,804
Borrowings Growth%	*33%*	*25%*	*33%*	*34%*	*23%*	*26%*	*40%*
GNPA%	1.7%	1.5%	1.6%	1.7%	1.7%	1.4%	1.4%
NNPA%	0.4%	0.4%	0.5%	0.5%	0.5%	0.4%	0.4%
Net Income	6,200	8,150	11,213	14,593	1,959	2,578	2,687
Net Inc. Gr%	*39%*	*31%*	*38%*	*30%*	*39%*	*46%*	*37%*
Opex	2,564	3,272	3,970	4,909	875	954	985
Opex Growth%	*32%*	*28%*	*21%*	*24%*	*42%*	*28%*	*13%*
Pre-provision Profit	3,636	4,878	7,242	9,685	1,083	1,624	1,702
PPP Gr%	*45%*	*34%*	*48%*	*34%*	*36%*	*60%*	*57%*
Provisions	818	1,035	1,330	1,711	228	327	319
Net Profits	1,837	2,496	3,845	5,198	557	836	902
Profit Gr%	*44%*	*36%*	*54%*	*35%*	*37%*	*81%*	*62%*
NIM% (Cal.)	10.5%	11.3%	11.8%	11.8%	9.7%	12.6%	12.3%
Cost to Income%	41%	40%	35%	34%	45%	37%	37%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑Net Income growth is expected at 4% sequentially to Rs 2687 Cr. Cost of fund is expected to rise due to increasing bond yield. We are cautious on margin front due to rising bond and tight liquidity condition in the system.

❑ With increased focus on network expansion and technology of the company, C/I ratio is expected to be at 37% in 2Q FY19. We expect operating profit growth of Rs 5% to Rs 1702 Cr in 2Q FY19.

❑ BAF is one of the leading players in consumer durable finance business and has been continuously gaining the market share on the back of strong distribution network. AUM has grown at 36% CAGR over last 5 years. AUM growth is expected at 33% YoY in 2Q FY19 led by strong consumer durable and rural lending. The mortgage lending might register slower growth going forward.

❑ Assets quality is expected to remain stable with GNPA at 1.35% and NNPA at 0.42%. Provisions are expected to be in the range of Rs 320 Cr.

Key Trackable this Quarter

❑ Cost to income ratio

❑ NIM performance

❑ AUM growth

We value the stock at 6x P/BV FY20E. BUY.

Can Fin Homes Limited

CANF IN

FINANCIALS- NBFC

CMP	**252**
Target	**262**
Upside	**4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	24.1%	24.9%	21.1%	19.0%
Roa%	1.9%	2.1%	1.8%	1.6%
Div Yield%	0.1%	0.6%	0.8%	0.8%
Book Value	81	101	122	145
P/B	5.2	4.8	2.1	1.7

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	13,313	15,743	18,734	22,856	14,456	16,199	16,914
AUM Growth%	*25%*	*18%*	*19%*	*22%*	*21%*	*17%*	*17%*
Borrowings	11,872	13,925	16,653	20,409	12,827	14,272	14,902
Borrowings Growth%	*25%*	*17%*	*20%*	*23%*	*19%*	*16%*	*16%*
Disbursement (Rs Cr)	4,792	5,207	6,154	8,068	1,346	1,164	1,522
GNPA%	0.2%	0.4%	0.5%	0.3%	0.4%	0.7%	0.6%
NNPA%	0.0%	0.2%	0.3%	0.2%	0.2%	0.4%	0.4%
Net Interest Income	422	507	537	603	143	137	142
NII Gr	*40%*	*20%*	*6%*	*12%*	*27%*	*4%*	*5%*
Opex	80	86	84	95	20	20	22
Opex Growth%	*19%*	*8%*	*-2%*	*13%*	*3%*	*-3%*	*6%*
Pre-provision Profit	389	480	485	544	122	117	121
PPP Gr	*42%*	*23%*	*1%*	*12%*	*31%*	*4%*	*-1%*
Provisions	20	22	9	31	8	-	2
Net Profits	235	302	314	338	75	77	78
Profit Gr%	*50%*	*28%*	*4%*	*8%*	*36%*	*11%*	*4%*
NIM% (Cal.)	3.5%	3.5%	3.1%	2.9%	3.8%	3.4%	3.4%
Cost to Income%	17%	15%	15%	15%	14%	15%	15%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Spike in bond yield has added the pain over margin front. Cost of fund is expected to rise going ahead. There is concern over tight liquidity in the market which may impact the cost of fund to rise significantly. NII growth is expected to remain muted at 5% YoY in 2Q FY19.

❑ CANFINHOME loan book has got impacted due to uncertainty over RERA in Karnataka and Kerala which constitute 50% of the business. There has been supply side issue as well on affordable segment; consolidation is taking place to complete the stalled projects. We expect AUM growth of 17% in 2Q FY19. Due to liquidity issue in the system, borrowing is also expected to get impacted.

❑ Assets quality remains healthy among its peers but it has moved to 66 bps GNPA. NNPA numbers has also risen to 44 bps. With the rising portion of builder loan book we cautious of its asset quality trend as the share of builder loan book sanction is also slightly on higher side. But management is confident once the issue is resolved salaried segment should come back.

❑ Management is looking to raise Rs 1000 Cr to depending on growth situation.

Key Trackable this Quarter

❑ Pick up in disbursement growth will be important

❑ NIM performance will be closely watched

❑ Assets quality trend

We value the stock at 1.8x P/BV FY20e.NEUTRAL.

Cholamandalam Inv & Fin.

CIFC IN

FINANCIALS- NBFC

CMP	**1198**
Target	**1446**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	18.0%	20.6%	22.3%	20.7%
Roa%	2.5%	2.8%	2.7%	2.5%
Div Yield%	0.6%	0.4%	0.5%	0.6%
Book Value	276	329	402	482
P/B	3.5	4.4	3.0	2.5

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	34,167	42,879	51,455	58,659	36,490	45,097	46,342
AUM Growth%	*15%*	*25%*	*20%*	*14%*	*14%*	*30%*	*27%*
Borrowings	24,207	31,902	45,942	52,374	26,889	40,520	42,322
Borrowings Growth%	*7%*	*32%*	*44%*	*14%*	*8%*	*33%*	*57%*
Disbursement (Rs Cr)	18,591	25,119	32,299	36,989	5,498	7,014	8,110
GNPA%	4.7%	2.9%	2.6%	2.3%	4.5%	3.0%	2.9%
NNPA%	3.2%	1.7%	1.4%	1.3%	2.9%	1.7%	1.6%
Net Interest Income	2,403	3,195	3,423	3,872	739	795	839
NII Gr	*13%*	*33%*	*7%*	*13%*	*26%*	*20%*	*14%*
Opex	1,013	1,363	1,097	1,234	309	258	269
Opex Growth%	*20%*	*34%*	*-20%*	*13%*	*22%*	*12%*	*-13%*
Pre-provision Profit	1,416	1,834	2,327	2,639	430	537	571
PPP Gr	*9%*	*29%*	*27%*	*13%*	*26%*	*24%*	*33%*
Provisions	311	350	378	450	83	98	93
Net Profits	719	974	1,274	1,433	227	285	313
Profit Gr%	*26%*	*35%*	*31%*	*12%*	*33%*	*36%*	*38%*
NIM% (Cal.)	7.5%	8.3%	7.3%	7.0%	8.3%	7.6%	7.3%
Cost to Income%	42%	43%	32%	32%	42%	32%	32%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Due to continuous rise in bond yields, incremental cost of fund is expected to rise going forward. Recently yields have also decreased due to change in assets mix towards lower yielding assets. NIM is expected to remain under pressure going ahead with rising competitive intensity. NII is expected around Rs 839 Cr registering 6% sequential growth.

❑ Cost efficiency measures and slow down in expansion plans will help in lowering of C/I ratio. We expect C/I ratio to be at 32% in 2Q FY19.

❑ MHCV, Cars & MUV, LCV and SCV industry is expected to grow at a CAGR of 4%, 10%, 12% and 14% respectively till FY22. We expect AUM growth of 27% in 2QFY19. Disbursement growth would be around 16% QoQ. Home Equity segment growth pick up in last quarter.

❑ GNPA is at 2.99/1.71%. GNPA increased in the VF business (2.18%, up 14bps QoQ), however HE segment (5.15%, down 21bps QoQ) driven by repossession and sale of properties through SARFAESI. Asset quality is expected to further lower down as management is focusing on increasing the collection efficiency of the portfolio.

Key Trackable this Quarter

❑ Trend in home equity assets quality.

❑ AUM growth pickup in home equity segment.

❑ NIM performance.

We value the stock at 3x P/BV FY20e and recommend BUY.

Dewan Hsg Fin Corp Ltd.

DEWH IN

FINANCIALS- NBFC

CMP	**318**
Target	**398**
Upside	**25%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	44.5%	14.0%	17.6%	15.2%
Roa%	3.6%	1.2%	1.4%	1.2%
Div Yield%	1.2%	0.5%	0.9%	1.3%
Book Value	255	280	349	398
P/B	1.4	1.8	0.9	0.8

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	83,560	111,090	142,195	173,478	94,090	120,940	127,022
AUM Growth%	*20%*	*33%*	*28%*	*22%*	*25%*	*37%*	*35%*
Borrowings	81,340	92,715	120,504	148,272	86,702	106,320	110,453
Borrowings Growth%	*33%*	*14%*	*30%*	*23%*	*11%*	*24%*	*27%*
Disbursement (Rs Cr)	28,585	44,806	52,507	61,093	9,950	13,583	11,432
GNPA%	0.9%	1.0%	1.0%	1.1%	1.0%	0.9%	1.0%
NNPA%	0.6%	0.0%	0.7%	0.7%	0.0%	0.7%	0.7%
Net Interest Income	2,000	2,445	3,406	3,740	601	831	866
NII Gr	*20%*	*22%*	*39%*	*10%*	*22%*	*35%*	*44%*
Opex	583	723	984	1,020	170	234	249
Opex Growth%	*6%*	*24%*	*36%*	*4%*	*21%*	*48%*	*47%*
Pre-provision Profit	1,620	2,177	3,027	3,359	541	729	764
PPP Gr	*27%*	*34%*	*39%*	*11%*	*36%*	*42%*	*41%*
Provisions	218	420	479	659	107	91	115
Net Profits	2,896	1,172	1,734	1,782	293	435	441
Profit Gr%	*297%*	*-60%*	*48%*	*3%*	*26%*	*35%*	*51%*
NIM% (Cal.)	2.6%	2.5%	2.7%	2.4%	2.6%	3.1%	3.0%
Cost to Income%	26%	25%	25%	23%	24%	24%	25%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Net Interest income is expected grow by 4% on sequentially to Rs 866 Cr. Operating profit is expected to grow to Rs 764 Cr registering a growth of 5% QoQ.

❑ Due to tightening of liquidity in the system and rising bond yield, NIM of DHFL is expected to come under pressure. Negative assets liability management (As per Annual report) has also raised the concerns over margin front. On the other hand Yield for housing finance company has been under pressure due to intensive competition from the banks.

❑ AUM is expected to grow around 35% YoY on 2Q FY19 backed by healthy growth in non-core home loan segment. However this growth is also expected to get moderate in medium term due to rising concerns on liability franchise.

❑ Tier 1 ratio of DHFL is at 10.6%. However management is planning to raise Rs 4000 Cr of equity capital going forward to support the growth but if management fails to raise capital then growth may come under immense pressure.

Key Trackable this Quarter

❑ Incremental cost of fund for DHFL will be watched closely

❑ Borrowing growth will be important

❑ Management commentary on ALM

We value the stock at 1x P/BV FY20e and recommend BUY.

HDFC Limited

HDFC IN

FINANCIALS- NBFC

CMP	**1797**
Target	**2232**
Upside	**24%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	24.1%	14.0%	13.5%
Roa%	2.4%	3.3%	2.1%	1.9%
Div Yield%	1.3%	1.1%	1.0%	1.0%
Book Value	249	366	411	446
P/B	6.0	5.0	4.4	4.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	338,478	399,511	467,428	546,891	368,217	419,503	430,814
AUM Growth%	*16%*	*18%*	*17%*	*17%*	*18%*	*18%*	*17%*
Borrowings	280,534	320,656	376,958	446,441	300,300	332,526	339,224
Borrowings Growth%	*18%*	*14%*	*18%*	*18%*	*18%*	*16%*	*19%*
GNPA%	0.8%	1.1%	1.2%	1.1%	0.7%	1.2%	1.2%
NNPA%	0.5%	0.7%	0.8%	0.8%	0.7%	0.8%	0.9%
Total Net Income	12,263	12,995	13,615	15,964	3,227	3,599	3,147
Total Net Income Gr%	*6%*	*6%*	*5%*	*17%*	*26%*	*42%*	*-2%*
Opex	837	958	1,481	1,574	225	510	295
Opex Growth%	*10%*	*14%*	*55%*	*6%*	*-34%*	*46%*	*31%*
Pre-provision Profit	11,427	12,037	12,134	14,390	3,002	3,090	2,853
PPP Gr	*6%*	*5%*	*1%*	*19%*	*13%*	*41%*	*-5%*
Provisions	700	455	298	507	95	20	53
Net Profits	7,443	12,163	9,201	9,857	2,101	2,190	2,775
Profit Gr%	*5%*	*63%*	*-24%*	*7%*	*15%*	*54%*	*32%*
Spread%	2.3%	2.3%	2.3%	2.2%	2.3%	2.3%	2.3%
Cost to Income%	7%	7%	11%	10%	7%	14%	9%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Net income is expected to decline by 13% QoQ due to timing mismatch of dividend income. Dividend income from subsidiaries has been already recognised in 1Q FY19. However extra-ordinary income of Rs 787 Cr from IPO of HDFC AMC will keep gross revenue on growing trend.

❑ Due to rising cost, spread is expected to remain under pressure. However we believe HDFC is in a better position to manage its spread in the current liquidity scenario due to diversification of liability franchise. Opex is expected to decline by 42% QoQ to Rs 295 Cr as ESOP expenses as been accounted in 1Q FY19 only. Credit cost is expected to remain under control as HDFC has extra provisions in balance sheet.

❑ Loan book is expected to grow by 17% YoY led by pick up in individual and LRD segment. Corporate segment is still expected to report moderate growth.

❑ Assets quality under IND AS reporting showed negative surprise in 1Q FY19 with 2.5% of assets being under stage 3 as standard stressed assets. However with PCR of28% for stage 3 assets we don't expect any major credit cost hangover in near term but assets quality will be watched closely going ahead.

Key Trackable this Quarter

❑ Spread performance

❑ Assets quality trend

We value the stock on SOTP based to Rs 2232. BUY

Indiabulls Housing Finance Ltd

IHFL IN

FINANCIALS- NBFC

CMP	**943**
Target	**977**
Upside	**4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	25.5%	30.1%	30.1%	30.9%
Roa%	3.2%	3.3%	3.1%	3.2%
Div Yield%	2.7%	4.5%	4.8%	5.8%
Book Value	286	315	415	488
P/B	3.5	3.0	2.3	1.9

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	91,300	122,600	156,928	197,729	100,300	125,963	130,390
AUM Growth%	*33%*	*34%*	*28%*	*26%*	*33%*	*33%*	*30%*
Borrowings	85,300	110,260	140,114	174,982	96,840	115,990	118,536
Borrowings Growth%	*40%*	*29%*	*27%*	*25%*	*30%*	*31%*	*22%*
Disbursement (Rs Cr)	35,482	48,060	57,943	72,257	9,504	10,044	12,387
GNPA%	0.9%	0.8%	0.9%	0.9%	0.8%	0.8%	0.8%
NNPA%	0.4%	0.3%	0.6%	0.7%	0.3%	0.6%	0.6%
Net Interest Income	5,291	6,987	7,583	9,783	1,507	1,736	1,820
NII Gr	*24%*	*32%*	*9%*	*29%*	*21%*	*20%*	*21%*
Opex	737	880	1,020	1,116	212	269	260
Opex Growth%	*19%*	*19%*	*16%*	*9%*	*17%*	*44%*	*22%*
Pre-provision Profit	4,554	6,107	6,564	8,667	1,295	1,467	1,561
PPP Gr	*25%*	*34%*	*7%*	*32%*	*21%*	*16%*	*21%*
Provisions	783	1,131	356	673	182	65	80
Net Profits	2,906	3,847	4,677	5,944	860	1,055	1,116
Profit Gr%	*24%*	*32%*	*22%*	*27%*	*26%*	*30%*	*30%*
NIM% (Cal.)	4.4%	4.5%	4.4%	4.3%	5.4%	5.5%	5.4%
Cost to Income%	14%	13%	13%	11%	14%	15%	14%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ Profit growth is expected to remain healthy at 6% QoQ to Rs 1116 Cr as on 2Q FY19. Total Net Income is expected to grow to Rs 1820 Cr on the back of healthy AUM growth.

❑ Due to rise in cost of fund, NIM has been under pressure for IBULHSGFIN; however management was able to pass on the cost to customer to some extent which resulted in increase in incremental spread as reported by the management. However we expect NIM to remain under pressure due to rise in bond Yield and tightening of liquidity will also increase the short term borrowing rates.

❑ Credit cost is expected to be lower under the impact of IND AS norms as IBULHSGFIN has buffer provisions than required. LGD ratio is also expected at 25% which will keep overall provisioning lower going forward.

❑ AUM is expected to remain healthy at 30% YoY growth in 2Q FY19. Assets quality is expected to remain stable during the quarter.

Key Trackable this Quarter

❑ Incremental spread and NIM performance

❑ C/I Ratio trend

❑ Management commentary on borrowing and AUM growth outlook

We value the stock at 2x P/BV FY20e. NEUTRAL.

L&T Finance Holdings Limited

LTFH IN

FINANCIALS- NBFC

CMP	**128**
Target	**160**
Upside	**25%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	14.1%	14.4%	17.2%	18.9%
Roa%	1.5%	1.8%	2.3%	2.3%
Div Yield%	0.6%	0.5%	0.8%	0.8%
Book Value	44	63	67	80
P/B	2.8	2.5	1.9	1.6

	FY17	FY18	FY19E	FY 20E	Q2FY18	Q1FY19	Q2FY19E
AUM	66,650	83,654	102,894	122,444	72,348	86,570	90,435
AUM Growth%	*14%*	*26%*	*23%*	*19%*	*19%*	*24%*	*25%*
Borrowings	54,994	71,577	91,057	106,473	65,736	77,242	80,387
Borrowings Growth%	*26%*	*30%*	*27%*	*17%*	*19%*	*21%*	*22%*
Disbursement	18,313	22,664	23,344	24,044	20,239	15,603	21,049
GNPA%	7.1%	4.8%	7.0%	6.0%	5.8%	7.9%	7.9%
NNPA%	5.0%	2.3%	2.8%	2.7%	3.3%	3.2%	3.2%
Net Interest Income	3,034	3,408	4,124	4,942	809	1,018	957
NII Gr	*13%*	*12%*	*21%*	*20%*	*23%*	*60%*	*18%*
Opex	1,276	1,537	2,002	2,259	342	500	479
Opex Growth%	*-3%*	*20%*	*30%*	*13%*	*3%*	*40%*	*40%*
Pre-provision Profit	2,669	3,637	4,850	5,947	856	1,165	1,156
PPP Gr	*31%*	*36%*	*33%*	*23%*	*31%*	*46%*	*35%*
Provisions	1,590	1,897	1,836	2,209	471	436	443
Net Profits	1,042	1,459	2,231	2,766	362	540	528
Profit Gr%	*22%*	*40%*	*53%*	*24%*	*46%*	*59%*	*46%*
NIM% (Cal.)	4.9%	4.5%	4.4%	4.4%	5.2%	5.7%	5.1%
Cost to Income%	32%	30%	29%	28%	29%	30%	29%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑Total Net income is expected to grow 36% YoY Rs 1634 Cr led by healthy NII growth of 18% YoY and strong fee income growth. Despite the rise in cost of fund, calculated NIM is expected to remain stable due to change in assets mix towards higher yielding assets.

❑ Cost to income has increased to 30.04% from 28.92% due to considerable investment in rural and housing segment. C/I ratio is expected to trend lower with rising operating efficiency.

❑ L&TFH has grown at a CAGR of 32% over the last 2 years. We expect loan book to grow at the rate of 25% in 2QFY19 on the back of strong growth in rural focused business.

❑ Gross Stage 3 has decreased to 7.93% from 11.70% YoY, Net Stage 3 has decreased to 3.17% from 6.13% YoY with rise in provision coverage to 62% from 51% YoY. Asset quality is expected to improve as management is focusing on improving collection efficiency but we maintain a close watch on wholesale GNPA trend.

Key Trackable this Quarter

❑ Cost Income ratio.

❑ NIM performance due to rising bond yield and changing share of portfolio mix.

❑ Asset Quality on the wholesale segment

We value the stock at 2x P/BV FY20e. BUY.

LIC Housing Finance Ltd

LICHF IN

FINANCIALS- NBFC

CMP	**412**
Target	**414**
Upside	**0%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	19.1%	16.7%	18.7%	16.5%
Roa%	1.4%	1.2%	1.4%	1.3%
Div Yield%	1.2%	1.3%	1.8%	1.9%
Book Value	219	251	301	345
P/B	2.8	2.1	1.4	1.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	144,534	166,363	191,317	220,015	151,417	168,652	174,129
AUM Growth%	*15%*	*15%*	*15%*	*15%*	*16%*	*15%*	*15%*
Borrowings	126,335	145,339	166,363	191,317	133,622	147,735	151,417
Borrowings Growth%	*14%*	*15%*	*14%*	*15%*	*15%*	*14%*	*13%*
Disbursement (Rs Cr)	41,541	49,385	55,189	62,392	10,983	9,594	12,015
GNPA%	0.4%	0.8%	1.0%	0.9%	0.8%	1.2%	1.2%
NNPA%	0.1%	0.4%	0.8%	0.5%	0.4%	0.0%	1.1%
Net Interest Income	3,645	3,701	4,155	4,696	946	1,026	1,040
NII Gr	*24%*	*2%*	*12%*	*13%*	*3%*	*7%*	*12%*
Opex	612	648	365	415	140	77	86
Opex Growth%	*31%*	*6%*	*-44%*	*14%*	*3%*	*-16%*	*-39%*
Pre-provision Profit	3,237	3,301	4,006	4,528	806	949	954
PPP Gr	*19%*	*2%*	*21%*	*13%*	*2%*	*11%*	*18%*
Provisions	281	239	382	447	58	161	86
Net Profits	1,931	1,990	2,609	2,679	489	568	625
Profit Gr%	*16%*	*3%*	*31%*	*3%*	*-1%*	*18%*	*28%*
NIM% (Cal.)	2.7%	2.4%	2.3%	2.3%	2.4%	2.3%	2.3%
Cost to Income%	16%	16%	8%	8%	15%	7%	8%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Earnings have been muted in 1QFY19 under the strain of continued margin pressure, moderate disbursement, stagnant loan book growth over a period of time and deteriorating assets quality.

❑ Net interest income is expected to remain muted at 1% sequential growth. NIM will remain under pressure in 2Q FY19 due to rising cost of fund. However increase in PLR rates and increasing share of high yield assets will provide cushion to margins going ahead. NIM of LICHSGFIN has been one of the lowest in the industry due to pricing pressure in core home loan segment.

❑ Loan growth remained stagnant at 15% YoY, with core home loans growing at 9% YoY. Over the last 7-8 quarters, Non Core portfolio has been the key driver of growth. We expect LICHSGFIN to continue to grow at 15% backed by increasing share on non-core home loan portfolio.

❑ GNPA increases to 1.21% in 1Q FY19 against 0.78% in FY18. This raised concerns over assets quality and credit cost going forward.

Key Trackable this Quarter

❑ NIM performance

❑ AUM growth

❑ Assets quality trend

We value the stock at 1.2x P/BV FY20e. NEUTRAL.

M&M Financial Services Ltd

MMFS IN

FINANCIALS- NBFC

CMP	**406**
Target	**463**
Upside	**14%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.4%	11.3%	13.5%	13.9%
Roa%	0.9%	1.8%	2.2%	2.1%
Div Yield%	0.8%	1.0%	1.1%	1.2%
Book Value	114	151	167	185
P/B	2.8	2.7	2.4	2.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	46,776	55,101	65,019	76,723	49,917	58,711	59,402
AUM Growth%	*14%*	*18%*	*18%*	*18%*	*14%*	*21%*	*19%*
Borrowings	34,670	39,556	47,808	57,256	37,348	42,887	43,359
Borrowings Growth%	*18%*	*14%*	*21%*	*20%*	*14%*	*21%*	*15%*
Disbursement (Rs Cr)	31,659	37,773	45,011	51,875	7,567	10,339	10,098
GNPA%	9.0%	8.5%	9.0%	8.5%	12.5%	9.4%	9.2%
NNPA%	3.6%	3.8%	5.6%	4.9%	6.5%	6.3%	6.2%
Net Interest Income	3,316	4,147	4,591	5,306	911	1,077	1,123
NII Gr	*3%*	*25%*	*11%*	*16%*	*16%*	*45%*	*23%*
Opex	1,451	1,671	1,618	1,778	369	385	398
Opex Growth%	*23%*	*15%*	*-3%*	*10%*	*4%*	*18%*	*8%*
Pre-provision Profit	1,929	2,534	3,033	3,594	564	706	739
PPP Gr	*-8%*	*31%*	*20%*	*18%*	*25%*	*66%*	*31%*
Provisions	1,309	1,227	993	1,271	445	294	221
Net Profits	400	827	1,327	1,510	78	269	337
Profit Gr%	*-40%*	*107%*	*60%*	*14%*	*-18%*	*34%*	*332%*
NIM% (Cal.)	7.6%	8.1%	7.6%	7.5%	7.7%	8.0%	8.0%
Cost to Income%	43%	40%	35%	33%	40%	35%	35%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ NII is expected to be around Rs 1123 Cr registering 4% sequential growth backed by strong AUM growth. Cost of fund will rise significantly due to increased market rates. M&MFIN is also aggressive in short term borrowings. Increasing high yield assets (SME) and passing the cost burden to customer may provide some cushion to margins going ahead.

❑ C/I ratio is expected to decline going ahead as management has prioritised branch productivity. Opex growth is expected at 4% QoQ at Rs 398 Cr.

❑ With the deep presence in rural, M&MFIN will key beneficiaries from improving rural economy and good monsoon. Auto sales volume is expected to grow by 10-12% range in FY19. Loan book for M&MFIN is expected to grow 19% in 2QFY19. There might be near term weakness due to change in axle norm.

❑ Stage 3 loans under IND AS declined significantly to 9.4% against 14.5% a year back. Focus of management on collection has yielded the positive result. We expect with improving rural cash flow, assets quality will improve going ahead. Hence credit cost is expected to remain under control.

Key Trackable this Quarter

❑ Assets quality trend

❑ Growth in high yield assets

❑ NIM performance

We value the stock at 2.5x P/BV FY20e. BUY.

Magma Fincorp Ltd

MGMA IN

FINANCIALS- NBFC

CMP	**119**
Target	**129**
Upside	**8%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	0.9%	10.2%	13.2%	13.9%
Roa%	0.1%	1.5%	2.0%	2.2%
Div Yield%	0.8%	0.5%	0.8%	1.0%
Book Value	92	98	103	118
P/B	1.2	1.6	1.2	1.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	16,101	15,555	17,422	19,861	15,262	15,966	16,330
AUM Growth%	*-11%*	*-3%*	*12%*	*14%*	*-13%*	*1%*	*7%*
Borrowings	10,096	9,829	12,905	14,712	9,347	11,844	12,097
Borrowings Growth%	*-15%*	*-3%*	*31%*	*14%*	*-14%*	*-3%*	*29%*
Disbursement (Rs Cr)	1,478	2,233	2,439	3,376	1,641	1,840	2,041
GNPA%	6.7%	7.0%	7.0%	6.6%	7.2%	9.5%	9.0%
NNPA%	5.6%	5.2%	3.2%	3.0%	5.6%	4.4%	0.0%
Net Interest Income	1,105	1,162	1,206	1,359	303	321	342
NII Gr	*-3%*	*5%*	*4%*	*13%*	*-2%*	*9%*	*13%*
Opex	620	701	725	795	167	167	175
Opex Growth%	*-2%*	*13%*	*3%*	*10%*	*8%*	*15%*	*5%*
Pre-provision Profit	654	691	774	894	155	173	188
PPP Gr	*-4%*	*6%*	*12%*	*15%*	*-10%*	*7%*	*21%*
Provisions	607	374	271	278	75	85	61
Net Profits	13	230	338	413	49	68	85
Profit Gr%	*-94%*	*1712%*	*47%*	*22%*	*-4%*	*76%*	*75%*
NIM% (Cal.)	6.4%	7.3%	7.3%	7.3%	7.9%	8.3%	8.5%
Cost to Income%	49%	50%	48%	47%	52%	49%	48%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑NIM is expected to come under pressure on the back shift in portfolio mix towards lower yielding assets and rising borrowing cost. NII growth is expected at 7% QoQ to Rs 342 Cr in 2QFY19.

❑ Opex growth is expected at 5% QoQ and PAT is expected at Rs 85 Cr due to lower credit cost going ahead. Due to IND AS transition MAGMA took a hit of Rs 370 Cr on ECL provisions.

❑ Growth in disbursements was strong at 24% YoY in 1Q FY19, largely driven by CVs, used vehicles, SME loans and mortgages. MAGMA is gradually increasing its share of SME loans. We expect loan book growth to remain at 7% YoY in 2Q FY19. However liquidity pressure can result in growth pressure going ahead.

❑ Gross stage 3 loan has improved from 11.70% to 9.40% YoY. Gross stage 3 coverage ratio stood at 56%. Collection efficiency has improved to 98%. Credit cost is expected to trend lower than its historical average of 2%.

Key Trackable this Quarter

❑ NIM performance

❑ Management commentary on AUM and borrowing growth.

❑ Assets quality trend

We value the stock at 1.1x P/BV FY20e. HOLD.

Manappuram Finance Limited

MGFL IN

FINANCIALS- NBFC

CMP	**75**
Target	**80**
Upside	**7%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	24.7%	18.6%	18.8%	19.4%
Roa%	5.4%	4.1%	4.3%	4.2%
Div Yield%	2.6%	0.5%	3.3%	3.3%
Book Value	40	46	52	67
P/B	2.5	2.4	1.4	1.1

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	13,657	15,765	19,470	23,363	13,723	16,618	17,017
AUM Growth%	*19%*	*15%*	*24%*	*20%*	*-5%*	*24%*	*24%*
Borrowings	9,163	10,240	12,809	15,371	8,753	11,027	11,195
Borrowings Growth%	*-5%*	*12%*	*25%*	*20%*	*-28%*	*27%*	*28%*
GNPA%	2.0%	0.7%	0.9%	1.0%	1.2%	0.7%	0.8%
NNPA%	1.7%	0.3%	0.4%	0.5%	0.9%	0.3%	0.3%
Net Interest Income	2,219	2,396	2,711	3,200	583	642	665
NII Gr	*58%*	*8%*	*13%*	*18%*	*7%*	*12%*	*14%*
Opex	965	1,222	1,416	1,693	306	328	345
Opex Growth%	*16%*	*27%*	*16%*	*20%*	*27%*	*14%*	*13%*
Pre-provision Profit	1,275	1,227	1,350	1,576	288	325	334
PPP Gr	*116%*	*-4%*	*10%*	*17%*	*-8%*	*5%*	*16%*
Provisions	109	210	82	85	46	15	21
Net Profits	756	671	830	973	160	200	206
Profit Gr%	*114%*	*-11%*	*24%*	*17%*	*-17%*	*21%*	*29%*
NIM% (Cal.)	17.7%	16.3%	15.4%	14.9%	16.9%	16.9%	16.6%
Cost to Income%	50%	51%	51%	52%	52%	50%	51%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑NII is expected to grow at 14% YoY due to pick up in AUM growth after demonetization. NIM has been on declining trend. Going forward NIM is expected to further decline with the change in assets mix towards lower yield assets as well as rising cost of fund will further add pressure on NIM.

❑ C/I ratio has elevated this quarter to 50% from 48% YoY. Going ahead we expect C/I ratio to remain on higher range as management is planning to aggressively grow in the non gold portfolio.

❑ AUM growth has picked up by 24% YoY with pickup in gold loan portfolio. AUM growth is expected to be around 24% in 2Q FY19.

❑ Asset Quality remained steady at 70 bps GNPA and NNPA stood at 30 bps, GNPA in microfinance further declined to 1.7% from 2.3% in Q4FY18, and GNPA in housing also declined marginally to 4.6% from 4.8% in Q4FY18. However we maintain cautious stance in asset quality due to Kerala flood event. Manappuram is kerala based NBFC.

Key Trackable this Quarter

❑ Assets quality trend and impact of Kerala flood

❑ NIM performance

❑ AUM growth

We value the stock at 1.2x P/BV FY20e. NEUTRAL.

Muthoot Finance Limited

MUTH

FINANCIALS- NBFC

CMP	**407**
Target	**423**
Upside	**4%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	19.4%	24.1%	23.4%	22.0%
Roa%	4.1%	5.5%	6.0%	5.9%
Div Yield%	2.0%	1.8%	2.0%	2.0%
Book Value	163	194	235	282
P/B	2.3	2.1	1.7	1.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	27,279	29,138	33,509	37,530	27,608	30,997	31,473
AUM Growth%	*12%*	*7%*	*15%*	*12%*	*1%*	*11%*	*14%*
Borrowings	21,096	21,268	24,895	27,800	22,347	23,229	23,487
Borrowings Growth%	*13%*	*1%*	*17%*	*12%*	*4%*	*5%*	*5%*
GNPA%	2.1%	7.0%	2.5%	2.0%	4.6%	2.9%	3.0%
NNPA%	1.7%	6.2%	0.9%	0.7%	4.0%	1.0%	1.1%
Net Interest Income	3,346	4,222	4,637	5,008	1,150	1,121	1,150
NII Gr%	*32%*	*26%*	*10%*	*8%*	*52%*	*31%*	*0%*
Opex	1,267	1,307	1,545	1,465	312	374	383
Opex Growth%	*32%*	*25%*	*9%*	*8%*	*0%*	*20%*	*23%*
Pre-provision Profit	2,186	2,997	3,141	3,600	870	758	779
PPP Gr%	*48%*	*37%*	*5%*	*15%*	*81%*	*37%*	*-10%*
Provisions	265	240	59	106	117	3	16
Net Profits	1,180	1,720	2,005	2,271	454	492	496
Profit Gr%	*46%*	*46%*	*17%*	*13%*	*53%*	*43%*	*9%*
NIM% (Cal.)	13.0%	15.0%	14.8%	14.1%	16.8%	15.5%	15.3%
Cost to Income%	37%	30%	33%	29%	26%	33%	33%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ NIM (Cal.) showed improved during 1Q FY19 on the back of recoveries and lower interest reversals. However cost of fund is expected to rise significantly, hence NIM is will be under pressure going forward. Muthoot has 12% of the borrowings in CP of which rates has increased significantly in market due to liquidity issue. Net Interest income is expected to increase by 3% sequentially to Rs 1150 Cr in 2Q FY19.

❑ C/I ratio has elevated this quarter to 33% from 31% QoQ on account of opening of 19 plants in 1QFY19. Going ahead we expect C/I ratio to remain elevated with management's continuous expansion plan

❑ Loan growth has picked up by 11% QoQ a sign of revival in the gold loan portfolio after demonetization. Loan growth is expected to grow at the rate of 14% in 2QFY19.

❑ Asset Quality has shown remarkable improvement, GNPA has decreased from 6.98% in FY18 to 2.85% as per IND-AS. Credit cost is expected to remain low as Muthoot carries surplus provisions in the balance sheet. We maintain cautious stance on the growth and GNPA due to the recent Kerala flood event.

Key Trackable this Quarter

❑ NIM performance will be watched closely

❑ Operating expenses trend

❑ Pick up in AUM growth will be important

We value the stock at 1.5x P/BV FY20e. NEUTRAL.

Power Finance Corporation Ltd

POWF IN

FINANCIALS- NBFC

CMP	**79.8**
Target	**98**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	5.9%	15.3%	13.9%	15.8%
Roa%	0.8%	2.1%	3.4%	3.4%
Div Yield%	3.8%	9.1%	9.4%	10.6%
Book Value	138	151	149	164
P/B	0.5	0.6	0.5	0.5

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	245,524	278,914	312,384	349,870	258,050	284,849	289,016
AUM Growth%	*3%*	*14%*	*12%*	*12%*	*9%*	*13%*	*12%*
Borrowings	202,589	229,539	260,320	296,500	208,985	233,418	238,856
Borrowings Growth%	*1%*	*13%*	*13%*	*14%*	*7%*	*14%*	*14%*
Disbursement (Rs Cr)	28,384	26,852	28,115	31,488	13,820	12,981	15,896
GNPA%	3.2%	9.6%	8.5%	5.0%	8.3%	9.6%	10.0%
NNPA%	2.4%	7.4%	3.8%	2.3%	6.7%	4.5%	4.7%
Net Interest Income	9,837	8,616	8,512	10,499	6,897	6,560	6,881
NII Gr	*-7%*	*-12%*	*-1%*	*23%*	*-10%*	*-22%*	*-23%*
Opex	381	391	266	312	63	68	61
Opex Growth%	*17%*	*2%*	*-32%*	*17%*	*27%*	*9%*	*-2%*
Pre-provision Profit	10,205	9,142	8,747	10,583	2,738	2,043	2,082
PPP Gr	*-5%*	*-10%*	*-4%*	*21%*	*-8%*	*-19%*	*-24%*
Provisions	5,094	815	553	814	122	2	179
Net Profits	2,126	5,855	5,496	6,545	1,887	1,373	1,275
Profit Gr%	*-65%*	*175%*	*-6%*	*19%*	*1%*	*22%*	*-32%*
NIM% (Cal.)	4.1%	3.3%	2.9%	3.2%	4.2%	2.9%	2.8%
Cost to Income%	4%	4%	3%	3%	2%	3%	3%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Total Net Income is expected to remain muted with just 1.5% QoQ growth to Rs 2143 Cr led by margin compression. NIM is expected to remain below 3% mark in 2Q FY19 due to rising cost of fund. Management is optimistic once the stress projects will be resolved NIM will bounce to 4% kind of range. However we believe with rising share of lower yield assets (Renewable, Commissioned projects) and increased cost of fund (9% overseas borrowing will add some pressure due to rupee depreciation, 58% hedged), 4% NIM will be hard to achieve in near to mid-term. Significant recovery on NPA accounts will have positive impact on margin.

❑ With major focus on refinancing commissioned projects and renewable segment, AUM is expected to grow at 12% in 2QFY19. UP and Maharashtra is the key focus area for growth.

❑ 89% of the book is stress free. GNPA is 9.6% of which Rs 5300 Cr (5 cases- GVK, Shiga, Dans, South East UP and India Power Haldia) with 15% PCR is expected to be resolved with minimum haircut. PFC has increased PCR to 53% taking one time hit in networth under IND AS; hence credit cost is expected to remain low at 25 bps going ahead giving boost to profitability.

Key Trackable this Quarter

❑Assets quality trend.

❑ Resolution of stress accounts and haircut to be taken

❑NIM Performance

We value the stock at 0.6x P/BV FY20e. BUY.

Rural Electrification Corp Ltd

RECL IN

FINANCIALS- NBFC

CMP	**105**
Target	**155**
Upside	**48%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	13.5%	16.3%	17.2%
Roa%	3.0%	2.0%	2.2%	2.1%
Div Yield%	5.3%	7.3%	9.3%	10.2%
Book Value	169	180	174	194
P/B	0.5	0.7	0.6	0.5

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
AUM	201,929	239,449	275,366	316,671	215,845	241,913	248,222
AUM Growth%	*0%*	*19%*	*15%*	*15%*	*10%*	*16%*	*15%*
Borrowings	167,517	198,791	227,575	268,366	175,626	200,225	201,806
Borrowings Growth%	*-1%*	*19%*	*14%*	*18%*	*8%*	*19%*	*15%*
Disbursement (Rs Cr)	20,572	22,285	11,015	12,667	13,751	8,316	9,929
GNPA%	2.4%	7.2%	6.5%	3.5%	2.5%	8.1%	8.0%
NNPA%	1.6%	5.7%	3.6%	1.8%	1.7%	4.3%	3.5%
Net Interest Income	9,485	7,919	8,638	10,119	1,944	2,041	2,122
NII Gr	*3%*	*-17%*	*9%*	*17%*	*-17%*	*-11%*	*9%*
Opex	352	344	1,171	681	67	448	421
Opex Growth%	*4%*	*-2%*	*241%*	*-42%*	*-42%*	*41%*	*527%*
Pre-provision Profit	9,969	8,267	9,004	10,027	2,133	2,243	2,322
PPP Gr	*9%*	*-17%*	*9%*	*11%*	*-17%*	*6%*	*9%*
Provisions	1,109	1,416	610	722	310	132	153
Net Profits	6,246	4,647	5,679	6,234	1,215	1,469	1,453
Profit Gr%	*11%*	*-26%*	*22%*	*10%*	*-31%*	*37%*	*20%*
NIM% (Cal.)	4.7%	3.6%	3.4%	3.4%	3.7%	3.4%	3.5%
Cost to Income%	3%	4%	12%	6%	3%	17%	15%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ NII is expected to recover with 4% sequential growth to Rs 2122 Cr led by healthy AUM growth. Cost of fund has been rising but lower interest reversal with provide cushion to margins in near term. However we expect NIM to remain under pressure in FY19 due to increasing cost of fund as well as yield pressure on power sector.

❑ Loan book is expected to grow by 15% YoY in 2Q FY19 led by healthy demand in transmission & distribution segment. Renewable segment is also expected to grow at healthy pace (low base). Management stated that demand in power has been increasing by 8% MoM. There has been significant rise in power demand in Maharashtra state. Management has guided for 15-17% loan growth in FY19.

❑ We don't expect any major hit on assets quality going forward as the pain in private sector companies has been majorly recognised. 80% of the book has state exposure for which management is confident of being never default. With 47% PCR ratio, credit cost is expected to be under control with 25 bps going ahead giving boost to profitability.

Key Trackable this Quarter

❑ Assets quality trend. Projects under NCLT are key trackables.

❑ NIM performace

We value the stock at 0.8x P/BV FY20e. BUY.

Shriram Transport Finance

SHTF IN

FINANCIALS- NBFC

CMP	**1077**
Target	**1448**
Upside	**34%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11.7%	13.1%	17.2%	17.5%
Roa%	1.8%	1.9%	2.3%	2.3%
Div Yield%	0.8%	0.9%	1.0%	1.0%
Book Value	498	554	687	804
P/B	2.2	2.6	1.6	1.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19E	Q2FY19E
AUM	78,761	95,306	115,797	135,483	85,463	100,978	104,264
AUM Growth%	*8%*	*21%*	*22%*	*17%*	*13%*	*24%*	*22%*
Borrowings	53,110	63,320	97,719	113,375	55,680	85,300	87,987
Borrowings Growth%	*7%*	*19%*	*54%*	*16%*	*7%*	*53%*	*58%*
Disbursement (Rs Cr)	39,100	50,730	62,386	73,604	12,377	13,425	15,118
GNPA%	8.2%	9.2%	8.5%	7.5%	8.1%	9.0%	8.9%
NNPA%	2.7%	2.8%	2.6%	2.3%	2.5%	2.7%	2.7%
Net Interest Income	5,521	6,735	7,775	9,120	1,632	1,840	1,892
NII Gr	*8%*	*22%*	*15%*	*17%*	*21%*	*20%*	*16%*
Opex	1,229	1,489	1,829	2,132	349	437	444
Opex Growth%	*-6%*	*21%*	*23%*	*17%*	*10%*	*31%*	*27%*
Pre-provision Profit	4,368	5,494	5,996	7,047	1,316	1,414	1,461
PPP Gr	*12%*	*26%*	*9%*	*18%*	*25%*	*16%*	*11%*
Provisions	2,444	3,122	2,276	2,484	588	533	590
Net Profits	1,257	1,568	2,417	2,966	479	572	566
Profit Gr%	*7%*	*25%*	*54%*	*23%*	*24%*	*24%*	*18%*
NIM% (Cal.)	7.3%	7.7%	7.4%	7.3%	7.8%	7.5%	7.4%
Cost to Income%	22%	21%	23%	23%	21%	24%	23%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑NIM was slightly under pressure, it has decreased from 7.52% to 7.44% QoQ. This was mainly led by decline in the yields as the share of lower yield assets has increased in the portfolio as well as cost of fund is also on rising trend. NII growth is expected to 16% YoY in 2QFY19 to Rs 1892 Cr.

❑ Cost to income ratio has increased 199 bps to 23.59% YoY. As management is expanding into rural market we expect cost to income ratio to remain elevated going ahead.

❑ Improving road infrastructure, overloading ban, BSVI transitions, increased efficiency post implementation of GST will boost CV demand to 11-12% till FY22. We expect 22% AUM growth in 2QFY19. Due to rise in bond yield and liquidity problem, growth is also expected to tapper in near to mid-term.

❑ GNPA Stage 3 is at 8.98%, Net Stage 3 is at 2.74%. PCR stands at comfortable level of 71%. Assets quality is expected to improve from 2Q FY19 onwards. Credit cost is expected to be around 2% from 2.47% in the last year.

Key Trackable this Quarter

❑ NIM performance

❑ Management commentary on growth outlook

We value the stock at 1.8x P/BV FY20e. BUY.

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Analyst's ownership of the stocks mentioned in the Report	NIL

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

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Narnolia Financial Advisors Ltd.
803 & 703, A Wing, Kanakia Wall Street
Andheri Kurla Road, Andheri (E)
Mumbai-400093
T: +912262701200
D: +912262701236
www.narnolia.com