India Equity Analytics

Results Preview Q3FY19- Financials

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AU Small Finance Bank Ltd

Financials- Banks

AUBANK IN

CMP	**622**
Target	**675**
Upside	**9%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	10.1%	13.7%	13.9%	14.5%
Roa%	2.7%	2.0%	1.5%	1.5%
Div Yield%	-	0.1	0.2	0.2
BVPS	70	80	105	135
P/B	-	7.7	5.9	4.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	11,055	16,038	24,057	33,680	13,416	20,221	22,136
AUM Growth%	*34%*	*45%*	*50%*	*40%*	*38%*	*67%*	*65%*
Borrowings	7,120	15,562	25,059	34,367	11,041	20,699	23,059
Deposits	-	6,743	13,747	23,227	3,617	10,798	12,298
Deposits Gr QoQ			*104%*	*69%*		*446%*	*240%*
GNPA%	1.9%	2.0%	1.9%	1.7%	2.8%	2.0%	2.0%
NNPA%	1.2%	1.3%	1.2%	1.0%	1.9%	1.3%	1.2%
Net Interest Income	784	940	1,296	1,772	250	321	334
NII Gr	*27%*	*20%*	*38%*	*37%*	*27%*	*46%*	*33%*
Opex	353	753	1,084	1,460	204	268	282
Opex Growth%	*37%*	*113%*	*44%*	*35%*	*159%*	*55%*	*38%*
Pre-provision Profit	570	576	720	1,038	153	175	188
PPP Gr	*57%*	*1%*	*25%*	*44%*	*-4%*	*22%*	*23%*
Provisions	97	133	162	268	33	35	42
Net Profits	822	292	370	515	79	91	98
Profit Gr%	*288%*	*-64%*	*27%*	*39%*	*-5%*	*34%*	*24%*
NIM% (Cal.)	7.1%	5.5%	5.1%	4.9%	8.5%	7.7%	7.1%
Cost to Income%	38%	57%	60%	58%	57%	61%	60%

Std/Fig in Rs Cr

❑ AU BANK has grown at a 60% YoY 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 65% in 3QFY19 and management has guided for 35-40% loan growth in next 3-4 years. Deposit growth is also expected to remain healthy at 14% QoQ.

❑ NII is expected to grow by 33% on the back of strong AUM growth. Due to the rise in cost of fund, margins are likely to get impacted; however management has recently hiked the lending rates which might support the NIM to some extent.

❑ Due to investment in distribution, infrastructure, people and digital initiative operating expenses will remain elevated and is expected to grow by 38% in 3Q FY19. C/I ratio will remain in the range of 55-60% in medium term.

❑ Overall Asset Quality has remained stable in the 2% range but GNPA in SBL SME increased to 8.4% from 7% QoQ. Recent developments under NBFCs space and SME segment will keep the portfolio under concern.

Key Trackable this Quarter

❑Assets quality in the wholesale segment

❑Growth in the deposit segment

We Value the stock at 5x P/BV FY20e. NEUTRAL

Axis Bank Limited

AXSB IN

Financials- Banks

CMP	**620**
Target	**694**
Upside	**12%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.8%	0.5%	9.0%	16.2%
Roa%	0.7%	0.0%	0.8%	1.4%
Div Yield%	1.0%	0.0%	0.6%	1.0%
BVPS	233	247	270	315
P/B	2.1	2.1	2.3	2.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	373,069	439,650	505,598	596,605	420,923	456,121	475643
Adv Growth%	*10%*	*18%*	*15%*	*18%*	*21%*	*11%*	*13%*
Deposits	414,379	453,623	521,235	615,057	408,967	479,680	485350
Dep Growth%	*16%*	*9%*	*15%*	*18%*	*10%*	*15%*	*19%*
CD Ratio%	90%	97%	97%	97%	103%	95%	98%
GNPA%	5.0%	6.8%	5.0%	3.9%	5.3%	6.0%	5.6%
NNPA%	2.1%	3.4%	2.2%	1.5%	2.6%	2.5%	2.4%
Slippages %	6.5%	9.2%	2.9%	1.4%	1.1%	0.7%	0.7%
Net Interest Income	18,093	18,618	21,670	27,825	4,732	5,232	5,433
NII Gr	*7%*	*3%*	*16%*	*28%*	*9%*	*15%*	*15%*
Other Income	11,691	10,967	12,032	13,436	2,593	2,678	3,092
Other Inc Gr%	*25%*	*-6%*	*10%*	*12%*	*-24%*	*4%*	*19%*
Pre-provision Profit	17,585	15,594	18,158	23,262	3,854	4,094	4,646
PPP Gr	*9%*	*-11%*	*16%*	*28%*	*-17%*	*8%*	*21%*
Provisions	12,117	15,473	9,116	4,613	2,811	2,927	1,747
Net Profits	3,679	276	6,006	12,308	726	790	1,913
Profit Gr%	*-55%*	*-93%*	*2079%*	*105%*	*25%*	*83%*	*163%*
NIM% (Cal.)	3.4%	3.1%	3.2%	3.5%	3.3%	3.3%	3.3%
Cost to Income%	41%	47%	46%	44%	47%	48%	46%

Std/Fig in Rs Cr

❑ Cost of fund is expected to increase, however expected lower slippages and assets re-pricing at higher MCLR is likely to support NIM at current level. Management targets global NIM of 3.75-3.8% in longer run.

❑Stable margin, higher treasury gain and lower credit cost will improve the profitability in 3Q FY19. PAT is expected to grow by more than 150% YoY. NII growth is expected at 15% YoY.

❑BB and below rated portfolio stands at Rs 9000 Cr as on 2Q FY19 down from Rs 20000 Cr from FY17. Overall slippages trend has been improving and 2H FY19 slippages is expected to be lower than 1HFY19. We expect credit cost to normalize from 3Q FY19. Assets quality is expected to improve further.

❑Advances growth is expected to inch up backed by retail growth as well as increase in credit to NBFCs. We expect advances growth of 13% YoY.

Key Trackable this Quarter

❑ NIM Performance

❑ Recovery & Up-gradation

❑ Slippages and trend in BB stress pool.

We value the stock at 2.2x P/BV FY20e. BUY

Bank of Baroda

Financials- Banks

BOB IN

CMP	**119**
Target	
Upside	
Rating	**UNDER REVIEW**

	FY17	FY18	FY19E	FY20E
Roe%	3.4%	-5.8%	7.0%	11.0%
Roa%	0.2%	-0.3%	0.4%	0.6%
Div Yield%	0.7%	0.0%	0.4%	1.7%
BVPS	174	164	175	195
P/B	1.0	0.9	0.7	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	383,259	427,432	491,547	565,279	399,381	433,549	455294
Adv Growth%	*0%*	*12%*	*15%*	*15%*	*14%*	*12%*	*14%*
Deposits	601,675	591,315	692,319	785,109	573,265	606,973	641259
Dep Growth%	*5%*	*-2%*	*17%*	*13%*	*-3%*	*4%*	*12%*
CD Ratio%	64%	72%	71%	72%	70%	71%	71%
GNPA%	10.5%	12.3%	9.7%	6.6%	11.3%	11.8%	11.0%
NNPA%	4.7%	5.5%	3.9%	2.5%	5.0%	4.9%	4.5%
Slippages %	4.7%	7.3%	3.2%	2.0%	1.5%	1.0%	0.6%
Net Interest Income	13,513	15,522	18,702	22,060	4,394	4,493	4,772
NII Gr	*6%*	*15%*	*20%*	*18%*	*40%*	*21%*	*9%*
Other Income	6,758	6,657	5,813	6,544	1,673	1,352	1,594
Other Inc Gr%	*35%*	*-1%*	*-13%*	*13%*	*-6%*	*-22%*	*-5%*
Pre-provision Profit	10,975	12,006	13,449	16,236	3,650	3,081	3,533
PPP Gr	*24%*	*9%*	*12%*	*21%*	*41%*	*1%*	*-3%*
Provisions	8,502	14,796	8,607	8,044	3,427	2,430	2,000
Net Profits	1,383	(2,432)	3,130	5,407	112	425	996
Profit Gr%	*-126%*	*-276%*	*229%*	*73%*	*-56%*	*20%*	*791%*
NIM% (Cal.)	2.1%	2.3%	2.5%	2.6%	2.7%	2.6%	2.7%
Cost to Income%	46%	46%	45%	43%	40%	47%	45%

Std/Fig in Rs Cr

❑ The merger of BOB, Vijaya bank and Dena Bank will create 3rd largest lender of the country with the assets base of over Rs 10 Lakh Crore. Swap Ratio has been announced. We believe that merger will create near term disruption in the growth story on BOB and costs are also likely to spike in near term.

❑ Loan book of BOB is expected to grow at healthier rate of 14% in 3QFY19 led by strong retail assets growth. Liquidity crisis in NBFC is likely to boost retail assets of BOB. Large corporate book is also expected to pick up during the quarter.

❑ NII is expected to grow healthier by 6% QoQ led by strong balance sheet growth and NIM improvement. NIM is likely to improve due to MCLR reset and healthy growth in retail assets. Improvement in international margin will also boost the NIM.

❑ Assets quality has shown impressive improvement. PCR is also at healthy level of 71%. BOB has some exposure to IL&FS and management has not disclosed the amount. It has some project level exposure as well some exposure to default subsidiary.

Key Trackable this Quarter

❑ IL&FS exposure details

❑ Assets Quality trend

The stock is UNDER REVIEW

Bank of India

BOI IN

Financials- Banks

CMP	**104**
Target	**123**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	-4.8%	-17.8%	-2.5%	6.2%
Roa%	-0.3%	-1.0%	-0.2%	0.5%
Div Yield%	0.0%	0.0%	0.0%	0.0%
BVPS	308	204	164	175
P/B	0.5	0.5	0.6	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	366,482	341,380	348,208	372,582	350,949	340,273	340421
Adv Growth%	*2%*	*-7%*	*2%*	*7%*	*-3%*	*-7%*	*-3%*
Deposits	540,032	520,854	519,713	547,915	526,003	512,142	509612
Dep Growth%	*5%*	*-4%*	*0%*	*5%*	*-3%*	*-6%*	*-3%*
CD Ratio%	68%	66%	67%	68%	67%	66%	67%
GNPA%	13.2%	16.6%	15.0%	12.9%	16.9%	16.4%	16.0%
NNPA%	6.9%	8.3%	4.8%	4.2%	10.3%	7.6%	6.0%
Slippages %	6.1%	11.0%	4.8%	3.0%	5.4%	1.3%	0.7%
Net Interest Income	11,826	10,506	12,390	13,188	2,501	2,927	2,917
NII Gr	*1%*	*-11%*	*18%*	*6%*	*-13%*	*1%*	*17%*
Other Income	6,772	5,734	5,126	5,478	1,041	1,030	1,872
Other Inc Gr%	*85%*	*-15%*	*-11%*	*7%*	*-41%*	*-40%*	*80%*
Pre-provision Profit	9,733	7,139	7,691	8,400	1,354	1,647	2,203
PPP Gr	*61%*	*-27%*	*8%*	*9%*	*-45%*	*-26%*	*63%*
Provisions	12,105	15,772	10,009	4,061	4,900	3,343	2,553
Net Profits	(1,558)	(6,044)	(1,013)	2,864	(2,341)	(1,156)	(231)
Profit Gr%	*74%*	*-288%*	*83%*	*383%*	*N/A*	*N/A*	*N/A*
NIM% (Cal.)	2.1%	1.9%	2.2%	2.3%	1.7%	2.1%	2.1%
Cost to Income%	48%	56%	56%	55%	62%	58%	54%

Std/Fig in Rs Cr

- BOI is one of the strong contenders to come out of PCA framework soon. Government has announced capital infusion of Rs 10000 Cr to BOI in recent recapitalization of PSU banks.
- Profitability is expected to improve led by improvement in NIM and treasury gain. Growth in domestic advances will led to significant yield improvement going ahead. We expect BOI to turn profitable from 4Q FY19 onwards.
- Advances have been on declining trend due to run down in overseas book as per management strategy. However domestic book has shown sign of recovery since last 2 quarters. We expect loan to book remain flat QoQ and the book will start increasing gradually.
- Slippages are expected to slow down significantly in 2HFY19 and we expect there would be strong recovery and up-gradation in coming few quarters as BOI has extra provisions in some stress cases where hair cut is expected to be low.

Key Trackable this Quarter

- Trend in recovery and up-gradation.
- NIM Performance
- Slippages trend.

We value the stock at 0.7x P/BV FY20e. BUY

Canara Bank

CBK IN

Financials- Banks

CMP	**275**
Target	**335**
Upside	**22%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	3.4%	-12.2%	3.7%	10.4%
Roa%	0.2%	-0.7%	0.2%	0.6%
Div Yield%	0.3%	0.0%	0.0%	1.8%
BVPS	564	486	504	559
P/B	0.5	0.5	0.5	0.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	342,009	381,703	427,507	470,258	373,123	409,529	421629
Adv Growth%	*5%*	*12%*	*12%*	*10%*	*13%*	*14%*	*13%*
Deposits	495,275	524,772	585,627	653,136	503,888	551,926	569769
Dep Growth%	*3%*	*6%*	*12%*	*12%*	*-1%*	*11%*	*13%*
CD Ratio%	69%	73%	73%	72%	74%	74%	74%
GNPA%	9.6%	11.8%	10.0%	7.8%	10.4%	10.6%	10.3%
NNPA%	6.3%	7.5%	5.8%	4.4%	6.8%	6.5%	6.2%
Slippages %	3.8%	7.7%	4.1%	2.0%	0.8%	1.0%	0.9%
Net Interest Income	9,872	12,163	14,675	16,879	3,679	3,281	3,596
NII Gr	*1%*	*23%*	*21%*	*15%*	*52%*	*18%*	*-2%*
Other Income	7,554	6,943	6,826	6,589	1,566	1,555	1,771
Other Inc Gr%	*55%*	*-8%*	*-2%*	*-3%*	*-13%*	*-20%*	*13%*
Pre-provision Profit	8,914	9,548	10,817	12,061	2,831	2,327	2,710
PPP Gr	*25%*	*7%*	*13%*	*11%*	*43%*	*-6%*	*-4%*
Provisions	7,272	16,109	9,828	5,928	2,674	2,835	2,182
Net Profits	1,122	(4,222)	1,338	4,047	126	300	349
Profit Gr%	*140%*	*N/A*	*132%*	*203%*	*-61%*	*15%*	*177%*
NIM% (Cal.)	1.8%	2.2%	2.4%	2.5%	2.7%	2.3%	2.4%
Cost to Income%	48.8%	50.0%	49.7%	48.6%	46.0%	51.9%	49.5%

Std/Fig in Rs Cr

❑ NII is expected to improve sequentially with growth registering around 10% QoQ on the back of pick up in advances growth and improvement in NIM. Cost of fund is expected to increase but MCLR reset and improvement in assets quality is likely to boost NIM going ahead.

❑ Sharp correction in bond yield will have significant gain in treasury income in 3Q FY19. Operating expenses is expected to grow by 10% which is likely to improve operating profit on sequential basis. Lower credit cost will result in positive PBT in 3Q FY19 against PBT loss in 2Q FY19.

❑ Advances growth is expected to be around 12-14% driven by mainly due to growth in the retail segment. MSME segment has shown some improvement. Large corporate growth is also expected to recover gradually.

❑ Management targets to restrict the slippages to Rs 3000 Cr in 3Q and 4Q of FY19. CANBK has Rs 2500 Cr of exposure towards IL&FS group of which Rs 800 is under stress and likely to slip very soon.

Key Trackable this Quarter

❑ Recovery & up-gradation outlook

❑ NIM performance

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

City Union Bank Limited

CUBK IN

Financials- Banks

CMP	**195**
Target	**214**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	15.2%	15.3%	15.2%	16.3%
Roa%	1.5%	1.6%	1.6%	1.7%
Div Yield%	0.2%	0.2%	0.3%	0.3%
BVPS	49	57	66	77
P/B	2.5	2.7	3.0	2.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	23,833	27,853	32,588	38,454	25,737	29,425	30112
Adv Growth%	*13%*	*17%*	*17%*	*18%*	*19%*	*17%*	*17%*
Deposits	30,116	32,853	38,339	45,778	31,339	34,534	35014
Dep Growth%	*11%*	*9%*	*17%*	*19%*	*5%*	*12%*	*12%*
CD Ratio%	79%	85%	85%	84%	82%	85%	86%
GNPA%	2.8%	3.0%	2.9%	3.0%	3.3%	2.9%	3.0%
NNPA%	1.7%	1.7%	1.7%	1.6%	1.7%	1.7%	1.7%
Slippages %	2.3%	2.5%	2.1%	2.1%	0.5%	0.5%	0.6%
Net Interest Income	1,199	1,430	1,622	2,008	365	398	416
NII Gr	*22%*	*19%*	*13%*	*24%*	*19%*	*12%*	*14%*
Other Income	484	532	523	555	122	119	139
Other Inc Gr%	*18%*	*10%*	*-2%*	*6%*	*-15%*	*-24%*	*14%*
Pre-provision Profit	994	1,208	1,263	1,558	296	296	330
PPP Gr	*19%*	*22%*	*5%*	*23%*	*8%*	*-8%*	*11%*
Provisions	301	418	329	399	86	68	89
Net Profits	503	592	683	846	155	168	176
Profit Gr%	*13%*	*18%*	*15%*	*24%*	*22%*	*16%*	*14%*
NIM% (Cal.)	3.8%	4.0%	4.0%	4.2%	4.3%	4.2%	4.3%
Cost to Income%	40.9%	38.5%	41.1%	39.2%	39.1%	42.7%	40.5%

Std/Fig in Rs Cr

❑ City Union Bank has one of the best NIM in the industry at 4.3% given its focus on secured high yielding assets (MSME and traders constitutes 51% of the portfolio). Recently the cost of fund has been rising for the industry but NIM of CUB has performed well and now MCLR rates reset will support the NIM going ahead. NII is expected to grow by 14% YoY.

❑ C/I ratio increased to 42.7% in Q2FY19, which is the highest over the last 6 quarters. Overall in long term horizon management expect C/I ratio to be in the range of 42-45%. Fall in bond yield is likely boost treasury income significantly for CUBK.

❑ Advances of the bank have been growing at an average run rate of 17% over the last one year. Going forward, we expect loan growth to be mainly driven by retail and MSME advances.

❑ Slippages are expected to increase if 2 stresses account namely paper mill and educational institute slip into NPA. But management hopes everything to be fine and maintained its earlier slippages guidance of 1.75-2% for FY19.

Key Trackable this Quarter

❑ NIM performance

❑Slippages trend in MSME sector

❑ Pick up in loan growth

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

DCB Bank Limited

Financials- Banks

DCBB IN

CMP	**169**
Target	**170**
Upside	**1%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	10.0%	9.8%	10.9%	13.2%
Roa%	0.9%	0.9%	1.0%	1.0%
Div Yield%	0.3%	0.5%	0.6%	0.7%
BVPS	77	91	101	114
P/B	2.2	1.8	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	15,818	20,337	25,421	31,776	18,595	22,069	23616
Adv Growth%	*22%*	*29%*	*25%*	*25%*	*28%*	*27%*	*27%*
Deposits	19,289	24,007	30,263	37,829	21,296	26,169	27948
Dep Growth%	*29%*	*24%*	*26%*	*25%*	*13%*	*27%*	*31%*
CD Ratio%	82%	85%	84%	84%	87%	84%	85%
GNPA%	1.6%	1.8%	1.8%	1.8%	1.9%	1.8%	1.8%
NNPA%	0.8%	0.7%	0.7%	0.7%	0.9%	0.7%	0.7%
Slippages %	2.0%	2.2%	2.0%	1.7%	0.6%	0.5%	0.4%
Net Interest Income	797	995	1,162	1,434	250	282	294
NII Gr	*29%*	*25%*	*17%*	*23%*	*20%*	*14%*	*17%*
Other Income	249	311	355	439	75	73	99
Other Inc Gr%	*13%*	*25%*	*14%*	*24%*	*17%*	*13%*	*32%*
Pre-provision Profit	418	525	635	837	123	146	167
PPP Gr	*20%*	*26%*	*21%*	*32%*	*12%*	*17%*	*36%*
Provisions	111	139	136	168	34	32	34
Net Profits	200	245	323	434	57	73	86
Profit Gr%	*3%*	*23%*	*32%*	*35%*	*11%*	*25%*	*51%*
NIM% (Cal.)	3.9%	3.9%	3.6%	3.6%	4.2%	3.9%	3.9%
Cost to Income%	60.0%	59.8%	58.1%	55.3%	62.3%	58.9%	57.5%

Std/Fig in Rs Cr

❑ Margins are expected to be under pressure due to continuous increase in the cost of fund. However MCLR reset and decrease in competitive scenario will support the margin in medium term. We expect near term margin pressure to persist. NII growth is expected at 17% YoY.

❑Operating expenses is expected to grow around 11% YoY as management has decided to slow down branch expansion but C/I ratio is still elevated among the peers which is restricting the improvement in return ratios. Sharp correction in bond yield is likely to boost treasury gain.

❑Loan book of the bank has been doubled in the last 3 years driven by high demand for mortgages and rural loans. We expect loan book to grow around 27% in 3Q FY19. Liquidity issue in NBFC is likely to benefit DCB banks to gain market share.

❑The Bank's asset quality is relatively better compared to peers with GNPA/NNPA ratio at 1.84%/0.70%. The provision coverage ratio remains healthy at 77%. We expect assets quality to remain under control going ahead.

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. HOLD

Equitas Holdings Limited

EQUITAS IN

Financials- Banks

CMP	**125**
Target	**151**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8.9%	1.4%	8.8%	13.8%
Roa%	2.0%	0.3%	1.3%	1.8%
Div Yield%	0.0%	0.0%	0.0%	0.0%
Book Value	66	67	73	84
P/B	2.6	2.1	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	7,176	8,239	11,535	16,148	7,722	9,981	10,656
AUM Growth%	*17%*	*15%*	*40%*	*40%*	*8%*	*36%*	*38%*
Borrowings	6,543	10,607	13,108	18,351	8,259	11,212	11,973
Deposit	1,885	4,719	7,209	12,422	3,699	5,698	6,458
Deposit Growth%		*150%*	*53%*	*72%*	*387%*	*84%*	*75%*
GNPA%	3.5%	2.7%	3.0%	3.0%	5.0%	3.4%	3.3%
NNPA%	1.5%	1.4%	1.4%	1.4%	1.6%	2.0%	1.5%
Net Interest Income	855	925	1,148	1,587	235	277	293
NII Gr	*42%*	*8%*	*24%*	*38%*	*3%*	*21%*	*25%*
Opex	615	891	966	1,215	231	234	241
Opex Growth%	*71%*	*45%*	*8%*	*26%*	*39%*	*7%*	*4%*
Pre-provision Profit	354	223	443	739	42	108	120
PPP Gr	*11%*	*-37%*	*99%*	*67%*	*-60%*	*142%*	*186%*
Provisions	103	172	123	172	87	31	33
Net Profits	159	31	209	369	(30)	50	57
Profit Gr%	*-5%*	*-80%*	*567%*	*76%*	*-166%*	*356%*	*LP*
NIM% (Cal.)	11.3%	8.7%	8.2%	8.4%	9.8%	9.0%	8.9%
Cost to Income%	63.4%	80.0%	68.6%	62.2%	84.7%	68.5%	66.8%

Conso/Fig in Rs Cr

❑ After converting into the small bank, EQUITAS has shown sign of improvement in its operation during the 2Q FY19 results. We expect NII to grow around 25% in 3Q FY19 backed by strong AUM growth. Cost of fund is expected to rise and change in portfolio mix is likely to have little margin pressure going ahead.

❑ As management is finished off with its investment in infrastructure and has no further plans for investment, operating expenses growth is expected to remain modest at 4% YoY.

❑ Credit cost is expected to remain under control as the entire hit of demonetization has already been provided. GNPA /NNPA are expected to be at 3.3/1.5% in 3QFY19 with PCR of 55%.

❑ With strong branch network, diversification of assets portfolio and de-risking of AUM, EQUITAS has huge opportunity to grow going ahead. We expect AUM to grow in the range of 35-40% range in 3Q FY19.

Key Trackable this Quarter

❑ Deposits growth

❑Management commentary on listing of SFB

❑NIM performance

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

The Federal Bank Limited

Financials- Banks

FB IN

CMP	**93**
Target	**112**
Upside	**20%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9.8%	8.3%	10.2%	12.6%
Roa%	0.8%	0.7%	0.9%	1.0%
Div Yield%	1.0%	1.1%	1.3%	1.6%
BVPS	52	62	67	75
P/B	1.8	1.5	1.4	1.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	73,336	91,957	113,107	139,122	84,953	100,941	104492
Adv Growth%	*26%*	*25%*	*23%*	*23%*	*22%*	*25%*	*23%*
Deposits	97,665	111,992	131,520	165,621	100,537	118,182	121503
Dep Growth%	*23%*	*15%*	*17%*	*26%*	*9%*	*22%*	*21%*
CD Ratio%	75%	82%	86%	84%	84%	85%	86%
GNPA%	2.3%	3.0%	3.0%	2.6%	2.5%	3.1%	3.2%
NNPA%	1.3%	1.7%	1.6%	1.4%	1.4%	1.8%	1.7%
Slippages %	1.9%	2.8%	1.8%	1.1%	0.5%	0.5%	0.4%
Net Interest Income	3,053	3,583	4,199	5,425	950	1,022	1,060
NII Gr	*22%*	*17%*	*17%*	*29%*	*20%*	*14%*	*12%*
Other Income	1,082	1,159	1,457	1,604	229	323	502
Other Inc Gr%	*38%*	*7%*	*26%*	*10%*	*-17%*	*12%*	*119%*
Pre-provision Profit	1,925	2,291	3,000	3,796	561	698	890
PPP Gr	*35%*	*19%*	*31%*	*27%*	*18%*	*20%*	*59%*
Provisions	618	947	1,015	1,118	162	289	282
Net Profits	831	879	1,302	1,768	260	266	401
Profit Gr%	*75%*	*6%*	*48%*	*36%*	*26%*	*1%*	*54%*
NIM% (Cal.)	3.1%	3.0%	2.9%	3.1%	3.2%	3.1%	3.1%
Cost to Income%	53.4%	51.7%	47.0%	46.0%	52.4%	48.1%	43.0%

Std/Fig in Rs Cr

❑ NIM is likely to improve going further due to the focus towards high yield retail segment and increase in the MCLR rates. Management expects NIM to be maintained at 3.15% going forward and will exit 4Q FY19 with 1% RoA.

❑ The bank has approved sell 26% stake in FedFina to True North of which 17.4% has been transferred for Rs 169 Cr. With this stake sale and decline in bond yield treasury income is expected to remain robust during the quarter.

❑ Management has maintained slippages guidance range of Rs 1450-1500 Cr for FY19 of which Rs 960 Cr has slipped in 1HFY19, hence slippages is expected to remain lower going ahead but indirect exposure to IL&FS will be under key watch. Credit cost will remain at 65-70 bps but we expect one-off provisions from exceptional gain to boost PCR.

❑The bank aims to sustain its growth momentum at 25% in coming quarters due to opportunities in commercial and institutional banking portfolio.

Key Trackable this Quarter

❑ IL&FS exposure development

❑ NIM performance

❑ Improvement in C/I ratio

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

HDFC Bank Limited

HDFCB IN

CMP	**2121**
Target	**2464**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17.9%	17.9%	16.8%	17.2%
Roa%	1.8%	1.8%	1.8%	2.0%
Div Yield%	0.8%	0.7%	0.7%	0.8%
BVPS	349	410	541	616
P/B	4.1	4.6	3.9	3.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	554568	658333	803166	963800	631215	750838	776394
Adv Growth%	*19%*	*19%*	*22%*	*20%*	*28%*	*24%*	*23%*
Deposits	643640	788771	892407	1107816	699026	833364	853180
Dep Growth%	*18%*	*23%*	*13%*	*24%*	*10%*	*21%*	*22%*
CD Ratio%	86%	83%	90%	87%	90%	90%	91%
GNPA%	1.1%	1.3%	1.4%	1.3%	1.3%	1.3%	1.4%
NNPA%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Slippages %	1.3%	2.0%	1.7%	1.3%	0.8%	0.5%	0.5%
Net Interest Income	33139	40095	47974	59678	10314	11763	12356
NII Gr	*20%*	*21%*	*20%*	*24%*	*24%*	*21%*	*20%*
Other Income	12296	15220	17472	20154	3869	4016	4658
Other Inc Gr%	*14%*	*24%*	*15%*	*15%*	*23%*	*11%*	*20%*
Pre-provision Profit	25732	32625	39324	48622	8451	9480	10294
PPP Gr	*20%*	*27%*	*21%*	*24%*	*28%*	*21%*	*22%*
Provisions	3593	5927	6944	7143	1351	1820	1718
Net Profits	14550	17487	21219	27180	4643	5006	5608
Profit Gr%	*18%*	*20%*	*21%*	*28%*	*20%*	*21%*	*21%*
NIM% (Cal.)	4.4%	4.6%	4.6%	4.7%	4.7%	4.5%	4.5%
Cost to Income%	43.4%	41.0%	39.9%	39.1%	40.4%	39.9%	39.5%

Std/Fig in Rs Cr

❑ NII is expected to grow by 19% YoY driven by stable NIM and strong loan growth. NIM is expected to remain stable on sequential basis despite the rise in cost of fund. Focus on high yielding unsecured assets, strong CASA and recent capital infusion will support the NIM.

❑Fee income is showing strong traction driven largely by credit cards and fee from 3rd party product. We expect fee income momentum to remain strong. Recent correction in bond yield will provide significant gain in treasury income.

❑C/I ratio has been on improving trend since last few quarters mainly due to initiatives taken by the bank for digitization. Operating expenses is expected to grow by 15% YoY.

❑Loan book is expected to grow by 23% led by across the segment growth. Corporate book is expected to pick up given the opportunity arisen from liquidity tightness in NBFC space. Personal loan and credit card business has been performing well whereas vehicle loan book is expected to get slowdown due to moderating auto sales in country.

Key Trackable this Quarter

❑ Vehicle loan book growth

❑ NIM performance

❑ Improvement in C/I ratio

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

ICICI Bank Limited

ICICIBC IN

CMP	**360**
Target	**417**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	10.3%	6.6%	4.9%	12.6%
Roa%	1.3%	0.8%	0.6%	1.4%
Div Yield%	1.0%	0.5%	0.7%	1.0%
BVPS	156	164	170	190
P/B	1.6	1.7	2.1	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	464,232	512,395	589,255	677,643	505,387	544,487	576141
Adv Growth%	*7%*	*10%*	*15%*	*15%*	*10%*	*13%*	*14%*
Deposits	490,039	560,975	607,479	691,472	517,403	558,669	593960
Dep Growth%	*16%*	*14%*	*8%*	*14%*	*11%*	*12%*	*15%*
CD Ratio%	95%	91%	97%	98%	98%	97%	97%
GNPA%	7.9%	8.8%	7.5%	6.0%	7.8%	8.5%	8.2%
NNPA%	4.9%	4.8%	2.7%	1.9%	4.2%	3.7%	3.2%
Slippages %	7.9%	6.4%	2.5%	1.5%	0.9%	0.6%	0.5%
Net Interest Income	21,737	23,026	26,141	31,537	5,705	6,418	6,684
NII Gr	*2%*	*6%*	*14%*	*21%*	*6%*	*12%*	*17%*
Other Income	19,504	17,420	14,467	16,129	3,167	3,156	3,687
Other Inc Gr%	*27%*	*-11%*	*-17%*	*11%*	*-20%*	*-39%*	*16%*
Pre-provision Profit	26,487	24,742	23,238	28,797	5,058	5,250	5,970
PPP Gr	*11%*	*-7%*	*-6%*	*24%*	*-8%*	*-25%*	*18%*
Provisions	15,208	17,307	16,241	6,738	3,570	3,994	3,362
Net Profits	9,801	6,777	5,218	14,559	1,650	909	1,956
Profit Gr%	*1%*	*-31%*	*-23%*	*179%*	*-32%*	*-56%*	*19%*
NIM% (Cal.)	3.2%	3.0%	3.1%	3.3%	3.2%	3.3%	3.3%
Cost to Income%	35.8%	38.8%	42.8%	39.6%	43.0%	45.2%	44.8%

Std/Fig in Rs Cr

❑ NII growth has started to pick-up due to improvement in NIM and pick up in loan growth. Cost of fund has been rising but due to strong CASA franchise of 51%, increase in MCLR rates and lower slippages is likely to support NIM in near term. NII growth of 17% is expected in 3Q FY19.

❑Earnings of the bank are expected to improve in Q3FY19 due to higher treasury income led by decline in the bond yield. High PCR of 69% and lower slippages expectation is likely to result in lower credit cost in 2Q FY19. PAT is expected to grow by 18-19% YoY.

❑Advances grew at an average run rate of 11% over the last 4 quarters led by retail segment. Domestic corporate loan growth has also improved. We expect advances growth to be in the range of 13-15% led by retail segment. Loan to NBFC would also be a growth driver in 3Q FY19.

❑ Bank has nearly Rs 22000 Cr of exposure in BB and below rated portfolio. Slippages are expected to be significantly lower in FY19 than FY18. Recoveries and up-gradation is expected to lower as there was no big resolution in NCLT cases. Exposure is IL&FS is not very significant.

Key Trackable this Quarter

❑ Slippages trend and movement in BB & below rated portfolio

❑ NIM performance

❑ Management commentary on recoveries & Up-gradation

We value the stock at 2.2x P/BV FY20e. BUY

IndusInd Bank Limited

IIB IN

Financials- Banks

CMP	**1599**
Target	**1611**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	15.0%	16.2%	15.6%	18.8%
Roa%	1.8%	1.8%	1.6%	1.8%
Div Yield%	0.4%	0.4%	0.6%	0.7%
BVPS	345	397	454	537
P/B	4.1	4.5	3.5	3.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	113,081	144,954	182,642	226,476	128,542	163,144	164534
Adv Growth%	*28%*	*28%*	*26%*	*24%*	*25%*	*32%*	*28%*
Deposits	126,572	151,639	190,252	243,523	146,086	168,219	171389
Dep Growth%	*36%*	*20%*	*25%*	*28%*	*23%*	*19%*	*17%*
CD Ratio%	89%	96%	96%	93%	88%	97%	96%
GNPA%	0.9%	1.2%	2.2%	2.1%	1.2%	1.1%	2.3%
NNPA%	0.4%	0.5%	1.0%	0.8%	0.5%	0.5%	1.0%
Slippages %	1.3%	1.6%	2.2%	0.9%	0.9%	0.3%	1.5%
Net Interest Income	6,063	7,497	8,984	11,569	1,895	2,203	2,260
NII Gr	*34%*	*24%*	*20%*	*29%*	*20%*	*21%*	*19%*
Other Income	4,171	4,750	5,511	6,833	1,187	1,317	1,431
Other Inc Gr%	*27%*	*14%*	*16%*	*24%*	*17%*	*11%*	*21%*
Pre-provision Profit	5,451	6,656	8,280	10,493	1,665	1,992	2,119
PPP Gr	*32%*	*22%*	*24%*	*27%*	*22%*	*22%*	*27%*
Provisions	1,091	1,175	2,206	1,996	236	590	614
Net Profits	2,868	3,606	3,978	5,608	936	920	978
Profit Gr%	*25%*	*26%*	*10%*	*41%*	*25%*	*5%*	*4%*
NIM% (Cal.)	4.1%	4.0%	3.8%	3.9%	4.2%	4.2%	4.1%
Cost to Income%	46.7%	45.7%	42.9%	43.0%	46.0%	43.4%	42.6%

Std/Fig in Rs Cr

❑ Contraction of NIM was due to re-pricing in liability side more than the re-pricing made in assets. We expect NIM to be under pressure in short term due to the rising cost, despite rising MCLR rate. NII is expected to grow around 19% YoY.

❑Exposure to IL&FS is Rs 3000 Cr of which Rs 3000 Cr is towards parent company which is likely to slip in NPA. We have factored this as NPA in our estimate and assumed that management will accelerate the provisioning on it in near term. Management has already provided Rs 275 Cr of provisions on it during 2Q FY19.

❑Loan book growth has remained robust for IIB backed by gain in market share in corporate portfolio. Retail growth has also been strong but due to moderating auto sales in the country, we can see some slow down in vehicle financing book. Loan book growth is expected at 28% YoY.

Key Trackable this Quarter

❑ Management commentary on IL&FS provisioning

❑ Management commentary on expectation date of merger with Bharat Financial

❑ Growth in consumer finance book

We value the stock at 3x P/BV FY20e. NEUTRAL

Karur Vysya Bank Limited

KVB IN

Financials- Banks

CMP	**89**
Target	**96**
Upside	**8%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	12.6%	6.1%	5.5%	12.0%
Roa%	1.0%	0.5%	0.5%	1.0%
Div Yield%	2.3%	0.6%	1.1%	2.2%
BVPS	75	78	81	87
P/B	1.4	1.2	1.1	1.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	40,908	44,800	49,280	55,687	43,789	46,480	47730
Adv Growth%	*5%*	*10%*	*10%*	*13%*	*15%*	*7%*	*9%*
Deposits	53,700	56,890	61,600	70,489	57,119	58,262	59662
Dep Growth%	*7%*	*6%*	*8%*	*14%*	*4%*	*3%*	*4%*
CD Ratio%	76%	79%	80%	79%	77%	80%	80%
GNPA%	3.6%	6.6%	8.0%	7.5%	5.9%	7.7%	8.1%
NNPA%	2.5%	4.2%	4.3%	3.9%	3.9%	4.4%	4.5%
Slippages %	3.4%	5.2%	3.6%	1.7%	1.7%	0.4%	0.8%
Net Interest Income	2,074	2,298	2,361	2,716	561	579	589
NII Gr	*16%*	*11%*	*3%*	*15%*	*8%*	*4%*	*5%*
Other Income	782	900	911	1,059	225	176	234
Other Inc Gr%	*11%*	*15%*	*1%*	*16%*	*32%*	*-24%*	*4%*
Pre-provision Profit	1,571	1,777	1,677	2,001	420	361	420
PPP Gr	*21%*	*13%*	*-6%*	*19%*	*25%*	*-15%*	*0%*
Provisions	688	1,274	1,162	784	325	213	259
Net Profits	605	346	347	803	71	84	106
Profit Gr%	*7%*	*-43%*	*0%*	*131%*	*-39%*	*11%*	*50%*
NIM% (Cal.)	3.7%	3.8%	3.6%	3.8%	3.8%	3.7%	3.7%
Cost to Income%	45.0%	44.4%	48.8%	47.0%	46.5%	52.1%	49.0%

Std/Fig in Rs Cr

❑ Cost of fund is expected to rise as well as lower deposits and CASA growth would also add inflate the cost; however increase in MCLR by 50 bps since 4Q FY18 is likely to provide some support to the NIM. NII growth is expected to remain moderate at 5% YoY.

❑ Sharp correction in bond yield is likely to benefit treasury gain. Opex is expected to grow around 10% YoY led by continued business expansion and investment in digitalization. Hence operating expense will be more than income growth which will keep C/I ratio at 49% against 47% a year ago.

❑ Due to consolidation and clean up of balance sheet, advances growth has been moderate for KVB for several quarters. Management has been reducing the share of corporate book and increae retail share. We expect 9% YoY growth in loan book backed by healthier retail growth.

❑Bank has around Rs 500 Cr of exposure towards IL&FS group, hence in near term slippages is likely to be dominated by this portfolio. Specific PCR has been low at 45% which will keep credit cost at elevated level in medium term.

Key Trackable this Quarter

❑ NIM performance

❑ Slippages trend

❑ C/I ratio

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

RBL Bank Limited

RBK IN

CMP	**575**
Target	**579**
Upside	**1%**
Rating	**NEUTRAL**

Financials- Banks

	FY17	FY18	FY19E	FY20E
Roe%	12.2%	11.5%	12.9%	16.6%
Roa%	1.0%	1.1%	1.3%	1.5%
Div Yield%	0.4%	0.4%	0.4%	0.5%
BVPS	116	159	178	207
P/B	4.3	3.0	3.2	2.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	29,449	40,268	53,959	70,147	36,890	45,873	49616
Adv Growth%	*39%*	*37%*	*34%*	*30%*	*38%*	*37%*	*35%*
Deposits	34,588	43,902	57,403	77,941	38,623	47,790	51684
Dep Growth%	*42%*	*27%*	*31%*	*36%*	*29%*	*31%*	*34%*
CD Ratio%	85%	92%	94%	90%	96%	96%	96%
GNPA%	1.2%	1.4%	1.3%	1.3%	1.6%	1.4%	1.4%
NNPA%	0.6%	0.8%	0.7%	0.7%	1.0%	0.7%	0.7%
Slippages %	2.5%	1.9%	1.5%	1.3%	0.6%	0.3%	0.3%
Net Interest Income	1,221	1,766	2,452	3,328	467	593	626
NII Gr	*49%*	*45%*	*39%*	*36%*	*45%*	*41%*	*34%*
Other Income	755	1,068	1,451	1,936	258	333	382
Other Inc Gr%	*54%*	*41%*	*36%*	*33%*	*42%*	*38%*	*48%*
Pre-provision Profit	920	1,331	1,904	2,579	333	449	499
PPP Gr	*70%*	*45%*	*43%*	*35%*	*42%*	*48%*	*50%*
Provisions	239	365	515	547	82	140	131
Net Profits	446	635	914	1,341	165	205	243
Profit Gr%	*53%*	*42%*	*44%*	*47%*	*28%*	*36%*	*47%*
NIM% (Cal.)	3.0%	3.4%	3.7%	3.8%	3.9%	4.1%	4.0%
Cost to Income%	53.4%	53.0%	51.2%	51.0%	54.0%	51.5%	50.5%

Std/Fig in Rs Cr

- ❑ RBL has high dependence on wholesale funding which will set to rise in cost of fund but change in assets mix towards high yielding segment and MCLR reset will support the NIM in near term. NII is expected to grow by 34% YoY in 3Q FY19.
- ❑ Fee income is expected to grow by 49% YoY in 3Q FY19 on the back of rising credit card business. Further strong gain in treasury is also expected due to sharp decline in bond yield.
- ❑ With the expansion plan of 40 branches in 2HFY19 and investment towards assets side, we expect operating expenses to increase by 30% YoY. Management has guided C/I ratio between 50-52%.
- ❑ Loan book is expected to grow by 35% in 3Q FY19 on the back of strong growth in across the portfolio. We expect NBFC liquidity crisis would also provide opportunity for strong growth of wholesale segment.
- ❑ Assets quality is expected to remain stable with GNPA/NNPA at 1.4%/0.74%.

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. NEUTRAL

State Bank of India

SBIN IN

CMP	**296**
Target	**348**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	6.3%	-3.0%	3.5%	13.4%
Roa%	0.4%	-0.2%	0.2%	0.8%
Div Yield%	0.9%	0.0%	0.2%	2.0%
BVPS	236	246	254	290
P/B	1.2	1.0	1.2	1.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	1571078	1934880	2147717	2405443	1826212	1957340	2045357
Adv Growth%	*7%*	*23%*	*11%*	*12%*	*26%*	*9%*	*12%*
Deposits	2044751	2706343	2942078	3295127	2651240	2807420	2840774
Dep Growth%	*18%*	*32%*	*9%*	*12%*	*30%*	*7%*	*7%*
CD Ratio%	77%	71%	73%	73%	69%	70%	72%
GNPA%	6.9%	10.9%	8.3%	7.2%	10.4%	10.0%	9.2%
NNPA%	3.7%	5.7%	3.7%	3.0%	5.6%	4.8%	4.3%
Slippages %	3.1%	5.7%	2.4%	1.6%	1.6%	0.6%	0.5%
Net Interest Income	61860	74854	88915	100922	18688	20906	22108
NII Gr	*9%*	*21%*	*19%*	*14%*	*27%*	*12%*	*18%*
Other Income	35461	44601	39781	43852	8084	9375	10840
Other Inc Gr%	*26%*	*26%*	*-11%*	*10%*	*-16%*	*-41%*	*34%*
Pre-provision Profit	50848	59511	60723	73847	11755	13905	15980
PPP Gr	*18%*	*17%*	*2%*	*22%*	*-6%*	*-30%*	*36%*
Provisions	35992	75039	48236	24366	18876	12092	8005
Net Profits	10485	-6547	7902	32657	-2416	945	5263
Profit Gr%	*5%*	*-162%*	*221%*	*313%*	*-193%*	*-40%*	*318%*
NIM% (Cal.)	2.7%	2.7%	2.7%	2.8%	2.6%	2.7%	2.8%
Cost to Income%	47.8%	50.2%	52.8%	49.0%	56.1%	54.1%	51.5%

Std/Fig in Rs Cr

❑ Despite the rise in cost of fund, NIM is likely to improve. MCLR reset, lower interest reversal and healthy retail book growth will boost the yield whereas high liquidity and strong CASA franchise will provide cushion against rising cost. NIM is likely to improve in 3Q FY19. We expect NII to grow by 18% YoY.

❑ Due to sharp correction in bond yield treasury profit is likely to shoot up as well as SBI is sitting on huge provisions write back on investment portfolio. Opex is expected to grow around 13% YoY.

❑ We expect loan growth of 12% in 3Q FY19 led by retail growth. NBFC liquidity crisis is likely to boost SBI retail book.

❑ Management has maintained its slippages and credit cost of guidance of 2% each in FY19. We expect credit cost to improve significantly in FY20. Watchlist of SBI is at Rs 20000 Cr. IL&FS exposure is around Rs 4500 Cr to operational SPVs and management does not see any concern over this exposure.

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. BUY

The South Indian Bank Ltd

Financials- Banks

SIB IN

CMP	**15.55**
Target	**18**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9.0%	6.6%	3.8%	12.4%
Roa%	0.6%	0.4%	0.2%	0.7%
Div Yield%	1.9%	1.8%	3.2%	3.2%
BVPS	27	29	30	33
P/B	0.8	0.8	0.5	0.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	46,389	54,563	62,202	70,910	51,638	56,572	59384
Adv Growth%	*13%*	*18%*	*14%*	*14%*	*17%*	*16%*	*15%*
Deposits	66,117	72,030	79,746	93,303	68,109	74,911	76133
Dep Growth%	*19%*	*9%*	*11%*	*17%*	*7%*	*12%*	*12%*
CD Ratio%	70%	76%	78%	76%	76%	76%	78%
GNPA%	2.5%	3.6%	4.8%	4.5%	3.4%	4.6%	4.8%
NNPA%	1.5%	2.6%	3.2%	2.6%	2.4%	3.2%	3.2%
Slippages %	4.2%	3.9%	2.8%	1.0%	0.5%	0.4%	0.7%
Net Interest Income	1,675	1,966	2,010	2,468	509	506	498
NII Gr	*11%*	*17%*	*2%*	*23%*	*22%*	*1%*	*-2%*
Other Income	716	837	759	852	159	158	238
Other Inc Gr%	*38%*	*17%*	*-9%*	*12%*	*-39%*	*-44%*	*50%*
Pre-provision Profit	1,215	1,481	1,312	1,719	330	310	368
PPP Gr	*38%*	*22%*	*-11%*	*31%*	*-12%*	*-33%*	*11%*
Provisions	614	981	1,000	655	154	205	275
Net Profits	393	335	204	702	115	70	61
Profit Gr%	*18%*	*-15%*	*-39%*	*244%*	*3%*	*1523%*	*-47%*
NIM% (Cal.)	2.6%	2.7%	2.5%	2.7%	2.8%	2.6%	2.5%
Cost to Income%	49.2%	47.2%	52.6%	48.2%	50.6%	53.4%	50.0%

Std/Fig in Rs Cr

❑ Lower CASA at 25%, rising cost of fund and increase in slippages may result in NIM pressure in 3Q FY19. Management expects NIM to be at 2.8% in FY19. We expect NII growth to remain under pressure with de-growth of 2% YoY.

❑ Other income was impacted over the last 4 quarters due to lower treasury income and lower PSL certificate income. We expect trend of other income to improve going further due to sharp decline in bond yield which will increase treasury gain in 3Q FY19.

❑ In near term Slippages may increase as bank has Rs 420 Cr of exposure to IL&FS group and Rs 104 Cr of stress exposure to one EPC account. Bank has made provisions of Rs 20 Cr and Rs 10 Cr only on both the exposure respectively which will keep credit cost higher in near term.

❑ Loan book is expected to grow around 16%, led by strong retail and SME advances growth. Management don't expect any slowdown in growth due to flood impact and expects loan growth of around 18-20% in next 2 quarters. Deposit growth will moderate due to tight liquidity condition.

Key Trackable this Quarter

❑ NIM performance

❑ Slippages will be under key watch.

❑ Impact of Kerala Flood on assets quality.

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

Ujjivan Financial Services Ltd

UJJIVAN IN

CMP	**277**
Target	**326**
Upside	**18%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	14.1%	0.4%	10.0%	13.6%
Roa%	2.9%	0.1%	1.7%	1.9%
Div Yield%	4.6%	83.0%	5.2%	5.2%
Book Value	147	146	160	183
P/B	2.9	2.4	1.7	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	6,380	7,552	9,818	12,763	7,095	8,317	9,082
AUM Growth%	*16%*	*29%*	*30%*	*30%*	*8%*	*25%*	*28%*
Borrowings	6,292	6,019	6,219	7,053	6,871	8,525	9,174
Deposit	206	1,606	4,007	6,381	1,057	3,027	3,562
Deposit Growth %		*680%*	*150%*	*59%*		*312%*	*237%*
GNPA%	0.3%	3.6%	1.7%	1.5%	4.2%	1.9%	1.8%
NNPA%	0.0%	0.7%	0.3%	0.2%	1.0%	0.3%	0.3%
Net Interest Income	807	838	1,083	1,365	217	263	279
NII Gr	*38%*	*4%*	*29%*	*26%*	*9%*	*41%*	*29%*
Opex	458	654	968	1,090	167	233	248
Opex Growth%	*49%*	*43%*	*48%*	*13%*	*43%*	*50%*	*48%*
Pre-provision Profit	397	323	316	548	75	68	76
PPP Gr	*75%*	*311%*	*40%*	*122%*	*-37%*	*-3%*	*1%*
Provisions	75	311	40	122	29	6	7
Net Profits	208	7	186	281	29	44	46
Profit Gr%	*17%*	*-96%*	*2448%*	*52%*	*32%*	*470%*	*57%*
NIM% (Cal.)	12.2%	10.1%	10.6%	10.3%	10.9%	11.8%	11.7%
Cost to Income%	53.6%	67.0%	75.4%	66.5%	69.0%	77.3%	76.5%

Conso/Fig in Rs Cr

❑ Yield is expected to come under pressure with rising share of Non-MFI portfolio but there is some cushioning from the repricing of high cost MFI debt in the near term. NIM is likely to remain stable despite rise in cost of fund. NII is expected to grow by 29% YoY.

❑ Cost to income ratio is expected to remain elevated as management has plans to convert 108 asset centres into bank branches in 2HFY19, we expect C/I ratio to remain at 75% for FY19. With 475 branches being active by FY19, management expect deposits (including CDs) to reach Rs 7000 Cr FY19.

❑ Loan Book growth in 3QFY19 is expected to revive at 28% YoY. Growth will be mainly driven by diversification to Non-MFI segments due to small base. Management targets to grow in the range of 25-30% in FY19.

❑ Asset quality is controlled as PAR > 0 remains at the same 3.3% level in 2QFY19, GNPA is expected to reduce to 1.8% in 3QFY19 with rise in PCR of 85%. We expect credit cost to remain moderate during the quarter.

Key Trackable this Quarter

❑ Assets Quality trend

❑ Deposit growth

❑ Management commentary on listing of SFB.

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

Union Bank of India

Financials- Banks

UNBK IN

CMP	**86**
Target	**99**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	2.4%	-21.6%	5.2%	9.5%
Roa%	0.1%	-1.1%	0.3%	0.5%
Div Yield%	0.0%	0.0%	0.0%	0.0%
BVPS	341	215	225	248
P/B	0.5	0.4	0.4	0.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Net Advances	286,467	288,761	306,087	336,695	293,669	293,011	302479
Adv Growth%	*7%*	*1%*	*6%*	*10%*	*12%*	*1%*	*3%*
Deposits	378,391	408,501	419,297	454,994	398,518	399,092	414355
Dep Growth%	*10%*	*8%*	*3%*	*9%*	*5%*	*3%*	*4%*
CD Ratio%	76%	71%	73%	74%	74%	73%	73%
GNPA%	11.2%	15.7%	14.5%	12.3%	13.0%	15.7%	15.1%
NNPA%	6.6%	8.4%	7.1%	5.6%	7.0%	8.4%	7.6%
Slippages %	5.2%	8.0%	4.6%	2.5%	1.5%	1.0%	1.0%
Net Interest Income	8,903	9,305	10,336	11,162	2,548	2,493	2,620
NII Gr	*7%*	*5%*	*11%*	*8%*	*19%*	*7%*	*3%*
Other Income	4,965	4,990	4,358	4,438	873	899	1,210
Other Inc Gr%	*37%*	*1%*	*-13%*	*2%*	*-35%*	*-26%*	*39%*
Pre-provision Profit	7,430	7,540	7,765	7,858	1,655	1,772	2,049
PPP Gr	*30%*	*1%*	*3%*	*1%*	*-11%*	*-9%*	*24%*
Provisions	7,088	14,181	6,175	3,870	3,254	1,656	1,340
Net Profits	555	(5,247)	1,333	2,632	(1,250)	139	468
Profit Gr%	*59%*	*-1045%*	*125%*	*97%*	*-1302%*	*109%*	*137%*
NIM% (Cal.)	2.2%	2.1%	2.3%	2.3%	2.3%	2.2%	2.3%
Cost to Income%	46.4%	47.3%	47.2%	49.6%	51.6%	47.8%	46.5%

Std/Fig in Rs Cr

❑ NII growth is expected around 3% YoY as advances growth is expected to pick up gradually during the quarter. NIM is expected to improve despite rise in cost of fund due to MCLR reset, retail growth and lower interest reversal. Strong treasury income is likely to boost net income during the quarter.

❑We expect advances growth to pick up gradually led by retail and SME growth. Advances is expected to grow by 3% YoY. Share of corporate book is likely to decline further.

❑Bank has a PCR of 58% and with the pickup in NCLT resolution process we expect credit cost to normalize in FY20.

❑Asset quality of the bank is expected to improve going forward due to lower slippages. Management expects Rs 3500-4000 Cr recovery from NCLT in the 2nd half for Union Bank. Uttam Galva is resolved and ESSAR Steel is in advance stage of resolution. Union bank has Rs 1093 Cr of exposure towards IL&FS and out of this Rs 817 Cr is to SPV (Power subsidiary).

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 0.4x P/BV FY20e . BUY

Yes Bank Limited

YES IN

CMP	**182**
Target	
Upside	
Rating	**UNDER REVIEW**

	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	Q3FY18	Q2FY19	Q3FY19E
Net Advances	132,263	203,534	242,205	290,646	171,515	239,627	240121
Adv Growth%	*35%*	*54%*	*19%*	*20%*	*46%*	*61%*	*40%*
Deposits	142,874	200,738	224,264	269,117	171,731	222,838	222334
Dep Growth%	*28%*	*41%*	*12%*	*20%*	*30%*	*41%*	*29%*
CD Ratio%	93%	101%	108%	108%	100%	108%	108%
GNPA%	1.5%	1.3%	1.8%	1.9%	1.7%	1.6%	1.7%
NNPA%	0.8%	0.6%	0.8%	0.8%	0.9%	0.8%	0.9%
Slippages %	2.0%	4.0%	1.5%	0.9%	0.3%	0.8%	0.3%
Net Interest Income	5,797	7,737	10,203	12,502	1,889	2,418	2,622
NII Gr	*27%*	*33%*	*32%*	*23%*	*25%*	*28%*	*39%*
Other Income	4,157	5,224	6,375	7,080	1,422	1,473	1,609
Other Inc Gr%	*53%*	*26%*	*22%*	*11%*	*42%*	*18%*	*13%*
Pre-provision Profit	5,838	7,748	10,129	11,945	2,002	2,366	2,560
PPP Gr	*36%*	*33%*	*31%*	*18%*	*38%*	*24%*	*28%*
Provisions	793	1,554	3,009	2,252	421	940	720
Net Profits	3,330	4,225	4,776	6,397	1,077	965	1,215
Profit Gr%	*31%*	*27%*	*13%*	*34%*	*22%*	*-4%*	*13%*
NIM% (Cal.)	3.2%	3.1%	3.3%	3.4%	3.4%	3.2%	3.2%
Cost to Income%	41.4%	40.2%	38.9%	39.0%	39.5%	39.2%	39.5%

Std/Fig in Rs Cr

- YES has been undergoing with multiple changes on management front. We believe performance of YES will remain uncertain for few quarters. Strategy of new management will be important going ahead.
- Loan book of YES which was growing at a healthy pace of is expected to slow down significantly given the low capital base of Tier 1 at 9% and uncertainty over the management level. We expect flat loan book on sequential basis.
- Profitability of bank is expected to come under immense pressure due to rising cost of fund, slow down in fee income and increase in credit cost going ahead. We expect CASA to reduce going ahead which will credit pressure on NIM.
- Any huge divergence of NPA reporting will be key negative for the bank. We expect assets quality pain for YES in near term. Bank has Rs 2600 Cr of exposure towards IL&FS at SPV level. After the management change there might be some stress clean up exercise for the bank.

Key Trackable this Quarter

- Divergence report on assets quality by RBI
- Appointment of new management and ability to raise capital
- CASA performance

We remain UNDER REVIEW

Bajaj Finance Limited

BAF IN

Financials-Nbfc

CMP	**2645**
Target	**2707**
Upside	**2%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	21.7%	20.3%	21.3%	23.4%
Roa%	3.3%	3.6%	3.8%	3.8%
Div Yield%	0.3%	0.2%	0.2%	0.2%
Book Value	176	287	335	416
P/B	6.7	6.2	7.9	6.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	60,194	84,033	109,404	144,413	76,384	100,217	105,410
AUM Growth%	*36%*	*40%*	*30%*	*32%*	*33%*	*38%*	*38%*
Borrowings	49,250	61,567	89,675	119,350	57,901	73,822	86,402
Borrowings Growth%	*33%*	*25%*	*46%*	*33%*	*30%*	*40%*	*49%*
GNPA%	1.7%	1.5%	1.5%	1.6%	1.7%	1.5%	1.5%
NNPA%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Net Income	6,200	8,150	11,350	14,692	2,372	2,729	2,947
Net Inc. Gr%	*39%*	*31%*	*39%*	*29%*	*36%*	*42%*	*24%*
Opex	2,564	3,272	4,098	5,153	949	980	1,059
Opex Growth%	*32%*	*28%*	*25%*	*26%*	*32%*	*25%*	*12%*
Pre-provision Profit	3,636	4,878	7,252	9,539	1,423	1,749	1,889
PPP Gr	*45%*	*34%*	*49%*	*32%*	*38%*	*53%*	*33%*
Provisions	818	1,035	1,351	1,763	247	315	347
Net Profits	1,837	2,496	3,819	5,055	767	923	1,002
Profit Gr%	*44%*	*36%*	*53%*	*32%*	*38%*	*54%*	*31%*
NIM% (Cal.)	10.5%	11.3%	11.6%	11.4%	12.1%	12.2%	12.1%
Cost to Income%	41.4%	40.1%	36.1%	35.1%	40.0%	35.9%	35.9%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑Tightening of liquidity can result in increase in cost of fund for BAF. However recent increase in lending rates across the portfolio will provide some cushion. Positive ALM and sufficient liquidity is also positive for the company. We expect margin to remain stable on sequential basis.

❑ With the scaling of all the business verticals and strong demand of consumer durable loan, BAJFINANCE is expected to grow at robust rate of 38% in 3QFY19. There may be slight slowdown in the lumpy exposure (SME, LAS and commercial lending) due to liquidity crisis. NII is expected to grow at a 39% YoY.

❑ Operating expenditure is expected to grow at 12% YoY significantly lower than AUM growth mainly benefitting from operating efficiency.

❑ As most segments have more than 98.5% of collection efficiency we expect asset quality to remain stable at 1.50% in 3QFY19 with PCR of 65%. BAF has Rs 225 Cr of exposure to IL&FS group ring fenced by escrow account which is a potential stress going ahead. Credit cost is expected to remain at 1.35% in 3QFY19.

Key Trackable this Quarter

❑ Cost to income ratio.

❑ Asset Quality.

We value the stock at 6.5x P/BV FY20E. NEUTRAL

Can Fin Homes Limited

Financials-Nbfc

CANF IN

CMP	**289**
Target	**331**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	24.1%	24.9%	21.5%	21.9%
Roa%	1.9%	2.1%	1.9%	1.9%
Div Yield%	0.1%	0.6%	0.7%	0.7%
Book Value	81	101	123	150
P/B	5.2	4.8	2.4	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	13,313	15,743	18,734	22,856	15,058	16,935	17,768
AUM Growth%	*25%*	*18%*	*19%*	*22%*	*19%*	*17%*	*18%*
Borrowings	11,872	13,925	16,653	20,409	13,303	15,000	15,697
Borrowings Growth%	*25%*	*17%*	*20%*	*23%*	*17%*	*17%*	*18%*
Disbursement (Rs Cr)	4,792	5,207	6,075	8,071	1,322	1,443	1,688
GNPA%	0.2%	0.4%	0.5%	0.3%	0.5%	0.6%	0.6%
NNPA%	0.0%	0.2%	0.3%	0.2%	0.3%	0.4%	0.4%
Net Interest Income	422	507	538	676	144	139	144
NII Gr	*40%*	*20%*	*6%*	*26%*	*16%*	*2%*	*6%*
Opex	80	86	76	93	21	18	20
Opex Growth%	*19%*	*8%*	*-12%*	*22%*	*7%*	*-14%*	*-5%*
Pre-provision Profit	389	480	496	624	124	122	124
PPP Gr	*42%*	*23%*	*3%*	*26%*	*24%*	*4%*	*1%*
Provisions	20	22	4	21	9	-	-
Net Profits	235	302	321	398	80	77	82
Profit Gr%	*50%*	*28%*	*6%*	*24%*	*34%*	*8%*	*3%*
NIM% (Cal.)	3.5%	3.5%	3.1%	3.3%	3.6%	3.3%	3.3%
Cost to Income%	17.0%	15.2%	13.3%	12.9%	14.4%	12.7%	13.6%

*YoY not comparable due to IND AS — Std/Fig in Rs Cr

❑ We believe margin has bottomed out as management has recently increased interest rate across the product by 50-60 bps and ease of competition from liquidity tightening will have positive impact on yields. Increase in NHB refinance limit will also aid margin. NIM is expected to remain stable QoQ but will inch up going ahead. NII growth is expected to pick to 6% 3Q FY19 after growth over the last 2 quarters.

❑ CANFINHOME has registered healthy growth in approval & disbursement sequentially signalling recovery in RERA affected KARNATAKA. We expect growth to increase further to 18% YoY in 3QFY19.

❑ Asset quality is expected to slightly improve to 60 bps in 3QFY19. CANFINHOME expects the economic situations to improve in Karnataka and Tamil Nadu which would help further in the declining of GNPA level going forward. CANFINHOME has Rs 35 Cr of provision while it is required to maintain Rs 25 Cr according to the NHB norms so going ahead we expect very minimal or Nil provisioning in near term to improve bottom line the company.

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 2.2x P/BV FY20e. BUY

Cholamandalam Inv & Fin.

Financials-Nbfc

CIFC IN

CMP	**1260**
Target	**1447**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	18.0%	20.6%	21.9%	21.2%
Roa%	2.5%	2.8%	2.6%	2.2%
Div Yield%	0.6%	0.4%	0.7%	0.8%
Book Value	276	329	400	482
P/B	3.5	4.4	3.1	2.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	34,167	42,879	53,599	65,391	39,074	47,722	50,015
AUM Growth%	*15%*	*25%*	*25%*	*22%*	*20%*	*31%*	*28%*
Borrowings	24,207	31,902	48,726	62,876	28,298	46,638	46,962
Borrowings Growth%	*7%*	*32%*	*53%*	*29%*	*14%*	*47%*	*66%*
Disbursement (Rs Cr)	18,591	25,119	31,796	39,885	6,761	6,900	8,503
GNPA%	4.7%	2.9%	2.8%	2.7%	3.7%	3.4%	3.1%
NNPA%	3.2%	1.7%	1.5%	1.5%	2.3%	2.2%	1.9%
Net Interest Income	2,403	3,195	3,419	4,134	793	812	864
NII Gr	*13%*	*33%*	*7%*	*21%*	*31%*	*17%*	*9%*
Opex	1,013	1,363	1,191	1,422	324	290	299
Opex Growth%	*20%*	*34%*	*-13%*	*19%*	*25%*	*7%*	*-8%*
Pre-provision Profit	1,416	1,834	2,228	2,711	469	522	565
PPP Gr	*9%*	*29%*	*22%*	*22%*	*34%*	*23%*	*20%*
Provisions	311	350	330	497	90	62	86
Net Profits	719	974	1,250	1,462	249	305	316
Profit Gr%	*26%*	*35%*	*28%*	*17%*	*53%*	*49%*	*27%*
NIM% (Cal.)	7.5%	8.3%	7.1%	6.9%	8.8%	7.4%	7.4%
Cost to Income%	41.7%	42.6%	34.8%	34.4%	40.8%	35.7%	34.6%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ CV and tractors demand is expected to remain robust in the country backed by increased infra activity as well as improving rural economy. However PV industry seems to get slow down in near term. However CHOLAFIN is well diversified NBFC both in assets as well as geographically. Management has the capability to offset slowdown in one segment of auto industry with the growth in other segment.

❑ AUM growth is expected at 28% YoY & disbursement is expected to be at 26% in 3QFY19. Growth is expected to driven by used vehicles, three wheeler & tractors etc. It has enough liquidity to finance incremental disbursement so we don't expect any slowdown in the AUM growth.

❑ NIM is expected to slightly remain under pressure because of the rise in cost of fund. Management has highlighted to offset the rising cost of fund by increasing in share of higher yield asset. NII is expected to 9% YoY in 3QFY19. PAT growth is expected at 27% in 3QFY19.

❑ GNPL is expected to decline to 3.1% in 3QFY19; Management has guided GNPL numbers to lower down as management expects higher recovery under SARFAESI going ahead.

Key Trackable this Quarter

❑ Trend in home equity assets quality.

❑ Management Commentary on AUM growth outlook.

❑ NIM performance.

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

Dewan Hsg Fin Corp Ltd.

DEWH IN

Financials-Nbfc

CMP	**249**
Target	**302**
Upside	**21%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	44.5%	14.0%	15.1%	12.4%
Roa%	3.6%	1.2%	1.3%	1.0%
Div Yield%	1.2%	0.5%	1.2%	1.6%
Book Value	255	280	341	377
P/B	1.4	1.8	0.7	0.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	83,560	111,090	133,308	149,305	101,286	130,182	131,672
AUM Growth%	*20%*	*33%*	*20%*	*12%*	*29%*	*38%*	*30%*
Borrowings	81,340	92,715	110,172	125,466	86,530	108,900	109,727
Borrowings Growth%	*33%*	*14%*	*19%*	*14%*	*13%*	*26%*	*27%*
Disbursement (Rs Cr)	28,585	44,806	40,702	40,991	10,846	13,870	6,584
GNPA%	0.9%	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%
NNPA%	0.6%	0.0%	0.7%	0.7%	0.0%	0.0%	0.0%
Net Interest Income	2,000	2,445	3,137	3,376	623	831	777
NII Gr	*20%*	*22%*	*28%*	*8%*	*21%*	*44%*	*25%*
Opex	583	723	944	938	177	262	230
Opex Growth%	*6%*	*24%*	*31%*	*-1%*	*22%*	*48%*	*30%*
Pre-provision Profit	1,620	2,177	2,665	2,776	562	766	609
PPP Gr	*27%*	*34%*	*22%*	*4%*	*35%*	*52%*	*8%*
Provisions	218	420	535	694	100	133	150
Net Profits	2,896	1,172	1,466	1,390	306	439	317
Profit Gr%	*297%*	*-60%*	*25%*	*-5%*	*25%*	*53%*	*3%*
NIM% (Cal.)	2.6%	2.5%	2.6%	2.4%	2.6%	2.9%	2.5%
Cost to Income%	26.5%	24.9%	26.2%	25.2%	24.0%	25.5%	27.4%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ DHFL has been the worst hit in the liquidity tightness environment. Till date management has been successfully paid its obligations, however huge funding pressure still continues for DHFL which is expected to slow down its AUM growth significantly going ahead. Management has also announced consolidation in its portfolio by reducing developer segment.

❑ Margin is expected to remain under pressure with the rise in cost of fund & change in portfolio mix. As management has highlighted that it will bring down its high yielding project finance portfolio to 10% by MAR 19.

❑ Net Income and profitability is expected to decline sequentially in near term. We expect PAT to decline by 25-30% range QoQ.

❑ DHFL has accorded to disinvest to PGLH of Delaware, 50% stake (directly & indirectly) of DHFL Advisory & Investments Private Limited & 50% stake of n DHFL Pramerica Trustees Private Limited.

Key Trackable this Quarter

❑ Management commentary on borrowing repayment and capability of management to raise fund going ahead.

❑ Asset quality check on non- core home loan segment.

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

HDFC Limited

Financials-Nbfc

HDFC IN

CMP	**1968**
Target	**2197**
Upside	**12%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	24.1%	13.4%	13.9%
Roa%	2.4%	3.3%	2.1%	2.2%
Div Yield%	1.3%	1.1%	1.0%	1.1%
Book Value	249	366	448	488
P/B	6.0	5.0	4.4	4.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	338,478	399,511	467,428	546,891	384,200	430,200	451,435
AUM Growth%	*16%*	*18%*	*17%*	*17%*	*18%*	*17%*	*18%*
Borrowings	280,534	320,656	373,942	437,512	307,978	343,172	361,148
Borrowings Growth%	*18%*	*14%*	*17%*	*17%*	*17%*	*14%*	*20%*
GNPA%	0.8%	1.1%	1.4%	1.4%	1.2%	1.3%	1.3%
NNPA%	0.5%	0.7%	0.8%	0.8%	0.7%	0.7%	0.8%
Total Net Income	9,954	11,313	10,946	13,577	2,919	2,594	2,701
Total Net Income Gr%	*14%*	*14%*	*-3%*	*24%*	*13%*	*16%*	*-7%*
Opex	1,339	1,628	1,975	2,047	410	436	423
Opex Growth%	*13%*	*22%*	*21%*	*4%*	*30%*	*-31%*	*3%*
Pre-provision Profit	11,427	12,037	13,569	16,111	2,906	3,890	2,989
PPP Gr	*6%*	*5%*	*13%*	*19%*	*10%*	*47%*	*3%*
Provisions	700	455	646	507	95	401	110
Net Profits	7,443	12,164	9,176	11,079	5,667	2,467	2,044
Profit Gr%	*5%*	*63%*	*-25%*	*21%*	*233%*	*25%*	*-64%*
Spread%	3.2%	3.1%	2.5%	2.7%	3.2%	2.5%	2.5%
Cost to Income%	10.5%	11.9%	12.7%	11.3%	12.4%	10.1%	12.4%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Cost of fund is likely to increase due to liquidity issue; however HDFC has increased its PLR across the portfolio this financial year by 70 bps in this financial year which is likely to support the NIM going forward. We expect NII growth of 4% QoQ.

❑On the concern of liquidity, growth of HFCs is likely to slow down in near term. Developer segment is expected to get most impact from this crisis; however HDFC being strong brand, we believe current situation will provide growth opportunity by gaining market share. We expect AUM growth in the range of 17-18% in 3Q FY19.

❑On Asset quality we expect GNPA to remain in the same range at 1.3% in 3QFY19. We are taking a cautious stand in developer segment due to liquidity challenges. This segment needs to be watched carefully going ahead.

Key Trackable this Quarter

❑ Margin performance

❑Asset Quality trend in non-individual segment

We value the stock at 4.5x P/BV FY20e. BUY

Indiabulls Housing Finance Ltd

Financials-Nbfc

IHFL IN

CMP	**854**
Target	**920**
Upside	**8%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	25.5%	30.1%	27.9%	27.8%
Roa%	3.2%	3.3%	2.9%	2.9%
Div Yield%	2.7%	4.2%	5.3%	6.4%
Book Value	286	315	406	460
P/B	3.5	3.9	2.1	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	91,300	122,600	149,572	186,965	107,328	128,900	133,087
AUM Growth%	*33%*	*34%*	*22%*	*25%*	*32%*	*29%*	*24%*
Borrowings	85,300	110,260	134,750	171,528	101,980	120,310	123,228
Borrowings Growth%	*40%*	*29%*	*22%*	*27%*	*23%*	*24%*	*21%*
Disbursement (Rs Cr)	35,482	48,060	53,831	70,084	12,257	11,034	13,309
GNPA%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
NNPA%	0.4%	0.3%	0.6%	0.6%	0.3%	0.6%	0.6%
Net Interest Income	5,291	6,987	7,025	8,578	2,153	1,699	1,754
NII Gr	*24%*	*32%*	*1%*	*22%*	*57%*	*10%*	*-19%*
Opex	737	880	1,098	1,196	266	272	274
Opex Growth%	*19%*	*19%*	*25%*	*9%*	*42%*	*17%*	*3%*
Pre-provision Profit	4,554	6,107	5,927	7,383	1,887	1,427	1,480
PPP Gr	*25%*	*34%*	*-3%*	*25%*	*59%*	*9%*	*-22%*
Provisions	783	1,131	241	493	327	40	65
Net Profits	2,906	3,847	4,284	5,127	1,168	1,044	1,067
Profit Gr%	*24%*	*32%*	*11%*	*20%*	*55%*	*21%*	*-9%*
NIM% (Cal.)	4.4%	4.5%	4.0%	3.9%	5.7%	4.7%	4.7%
Cost to Income%	13.9%	12.6%	15.6%	13.9%	12.3%	16.0%	15.6%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ IHFL has Rs 600 Cr of exposure towards Supertech which has been recently defaulted on its obligation. However management of IHFL has clarified that its exposure towards 2 projects in Supertech has been standard with ring fenced by Escrow accounts. But we remain cautious on the exposure.

❑ Due to liquidity tightness and rise in cost of fund, spread is expected to come under pressure for IHFL. Further change in assets mix by reducing high yield assets will also impact NIM going ahead. We expect gradual downfall in margin going ahead.

❑ Net interest income is expected to grow at 8% YoY whereas PAT is expected to decline by 9% due to higher base effect.

❑ AUM growth is expected to slow down to 24% in 3Q FY19 due to lower growth in project loan segment. Management has guided for 20% AUM growth in FY19. Securitization has increase significantly due to relief in the norm by RBI.

Key Trackable this Quarter

❑ Incremental spread and NIM performance

❑ Management commentary on status on Supertech Exposure

❑ Management commentary on borrowing and AUM growth outlook

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

L&T Finance Holdings Limited

Financials-Nbfc

LTFH IN

CMP	**152**
Target	**175**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	14.1%	14.4%	17.5%	18.0%
Roa%	1.5%	1.8%	2.3%	2.2%
Div Yield%	0.6%	0.5%	0.7%	0.7%
Book Value	44	63	67	80
P/B	2.8	2.5	2.3	1.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	66,650	83,654	102,894	122,444	75,964	91,201	94,195
AUM Growth%	*14%*	*26%*	*23%*	*19%*	*23%*	*24%*	*24%*
Borrowings	54,994	71,577	93,540	111,313	68,466	86,789	86,418
Borrowings Growth%	*26%*	*30%*	*31%*	*19%*	*21%*	*32%*	*26%*
Disbursement	18,313	22,664	23,344	24,044	22,887	16,736	23,574
GNPA%	7.1%	4.8%	7.0%	6.0%	5.5%	7.1%	7.0%
NNPA%	5.0%	2.3%	2.8%	2.7%	2.9%	2.8%	2.7%
Net Interest Income	3,034	3,408	4,336	5,358	898	1,098	1,066
NII Gr	*13%*	*12%*	*27%*	*24%*	*31%*	*60%*	*19%*
Opex	1,276	1,537	2,144	2,597	401	527	541
Opex Growth%	*-3%*	*20%*	*39%*	*21%*	*27%*	*86%*	*35%*
Pre-provision Profit	2,669	3,637	4,688	5,835	941	1,149	1,159
PPP Gr	*31%*	*36%*	*29%*	*24%*	*37%*	*13%*	*23%*
Provisions	1,590	1,897	1,564	2,264	493	352	382
Net Profits	1,042	1,459	2,281	2,643	384	559	575
Profit Gr%	*22%*	*40%*	*56%*	*16%*	*39%*	*61%*	*50%*
NIM% (Cal.)	4.9%	4.5%	4.6%	4.8%	5.4%	5.4%	5.0%
Cost to Income%	32.4%	29.7%	31.4%	30.8%	29.9%	31.4%	31.8%

*YoY not comparable due to IND AS — Conso/Fig in Rs Cr

❑ L&TFH has Rs 1800 Cr exposure to IL&FS and Rs 800 Cr exposure in Supertech Ltd. IL&FS exposure is guaranteed by Government while Supertech Ltd.'s 75% of Flats are sold. Management expects NIL default in both cases.

❑ Margin is expected to remain stable in the rising cost scenario as L&TFH is focusing on the high yielding rural portfolio. Further it has also increased the rate in wholesale segment. NII is expected to grow by 19% YoY in 3QFY19.

❑ Management has guided to lower its wholesale book to 30-40% in the future so, higher share of incremental disbursement is expected to come from rural & housing. We expect a loan book growth of 24% in 3QFY19. AUM of investment & wealth management is expected to increase by 15% YoY.

❑ Asset Quality is expected to remain stable at 7% in 3QFY19.However, with risk of defaults in the real estate increasing in the current environment, credit quality of the construction finance segment needs to be monitored closely. Credit cost is expected to remain in the 1.65 bps range in 3QFY19.

Key Trackable this Quarter

❑ Borrowing Growth

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

❑ Asset Quality on the wholesale segment

We value the stock at 2.2x P/BV FY20e. BUY

LIC Housing Finance Ltd

Financials-Nbfc

LICHF IN

CMP	**489**
Target	**567**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	19.1%	16.7%	16.3%	17.2%
Roa%	1.4%	1.2%	1.3%	1.4%
Div Yield%	1.2%	1.3%	1.5%	1.6%
Book Value	219	251	326	378
P/B	2.8	2.1	1.5	1.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	144,534	166,363	192,981	219,998	156,176	175,953	182,726
AUM Growth%	*15%*	*15%*	*16%*	*14%*	*15%*	*16%*	*17%*
Borrowings	126,335	145,339	169,282	194,689	137,629	154,451	158,892
Borrowings Growth%	*14%*	*15%*	*16%*	*15%*	*15%*	*16%*	*15%*
Disbursement (Rs Cr)	41,541	49,385	58,768	66,669	12,301	14,272	14,618
GNPA%	0.4%	0.8%	1.3%	1.3%	0.9%	1.2%	1.3%
NNPA%	0.1%	0.4%	1.0%	0.8%	0.5%	0.0%	1.1%
Net Interest Income	3,645	3,701	4,153	5,206	953	1,064	1,103
NII Gr	*24%*	*2%*	*12%*	*25%*	*-2%*	*5%*	*17%*
Opex	612	648	397	518	148	101	105
Opex Growth%	*31%*	*6%*	*-39%*	*30%*	*5%*	*-11%*	*-29%*
Pre-provision Profit	3,237	3,301	3,944	4,948	805	963	998
PPP Gr	*19%*	*2%*	*19%*	*25%*	*-1%*	*11%*	*24%*
Provisions	281	239	700	709	48	218	157
Net Profits	1,931	1,990	2,373	3,052	491	573	605
Profit Gr%	*16%*	*3%*	*19%*	*29%*	*-2%*	*12%*	*23%*
NIM% (Cal.)	2.7%	2.4%	2.3%	2.5%	2.4%	2.4%	2.4%
Cost to Income%	15.9%	16.4%	9.2%	9.5%	15.5%	9.5%	9.5%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ With strong parentage & high credit rating, we expect LICHSGFIN will have easier access to funding than other HFCs. Hence this liquidity issues will be opportunity for LICHSGFIN in terms of AUM growth. Lower competition and ease of balance transfer can boost loan growth to 17% in 3Q FY19.

❑Despite rise in cost of fund, NIM is expected to remain stable in near term due to 60 bps increase in PLR rate. 80% of the book is now linked to floating rate which will help in reprising of the assets faster. NII is expected to grow at 17% with PAT growth of 23% in 3QFY19.

❑We maintain a cautious stance on asset quality due to risk in developer and project segment in current environment; we have factored GS3 of 1.25% in 3Q FY19.

Key Trackable this Quarter

❑ NIM performance

❑ Pick up individual home segment loan growth

❑ Assets quality trend

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

M&M Financial Services Ltd

Financials-Nbfc

MMFS IN

CMP	**473**
Target	**469**
Upside	**-1%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	6.4%	11.3%	14.0%	14.6%
Roa%	0.9%	1.8%	2.3%	2.3%
Div Yield%	0.8%	0.8%	1.0%	1.1%
Book Value	114	151	168	187
P/B	2.8	3.1	2.8	2.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	46,776	55,101	65,019	76,723	51,782	59,473	61,620
AUM Growth%	*14%*	*18%*	*18%*	*18%*	*13%*	*26%*	*19%*
Borrowings	34,670	39,556	50,403	59,940	36,347	46,707	48,141
Borrowings Growth%	*18%*	*14%*	*27%*	*19%*	*7%*	*25%*	*32%*
Disbursement (Rs Cr)	31,659	37,773	45,872	52,001	10,706	10,855	12,324
GNPA%	9.0%	8.5%	9.0%	8.5%	11.6%	9.0%	8.7%
NNPA%	3.6%	3.8%	5.6%	4.9%	5.6%	6.0%	5.8%
Net Interest Income	3,316	4,147	4,638	5,567	1,071	1,167	1,174
NII Gr	*3%*	*25%*	*12%*	*20%*	*44%*	*49%*	*10%*
Opex	1,451	1,671	1,663	1,977	428	425	419
Opex Growth%	*23%*	*15%*	*0%*	*19%*	*17%*	*28%*	*-2%*
Pre-provision Profit	1,929	2,534	3,081	3,701	655	787	779
PPP Gr	*-8%*	*31%*	*22%*	*20%*	*66%*	*66%*	*19%*
Provisions	1,309	1,227	990	1,238	199	231	212
Net Profits	400	827	1,381	1,601	342	381	369
Profit Gr%	*-40%*	*107%*	*67%*	*16%*	*2287%*	*133%*	*8%*
NIM% (Cal.)	7.6%	8.1%	7.7%	7.9%	8.7%	8.3%	8.0%
Cost to Income%	42.9%	39.7%	35.1%	34.8%	39.5%	35.1%	35.0%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Liquidity issue, sluggish auto sales during festive seasons and hike in passenger vehicle sales will impact AUM growth of vehicle financier. However SME growth would remain strong for M&MFIN. AUM growth is expected in the range of 18-20% in 3Q FY19.

❑Margin is expected to remain under pressure due to rise cost of fund. We expect NIM to decline by 20-30 bps QoQ as management is not able to pass on the entire rate hike to customer, OEM and dealers. NII is expected to grow at 10% YoY.

❑On the asset quality front as H2 is seasonally strong quarter asset quality is expected to improve going ahead. We expected GNPA of 8.90% in 3QFY19. Collection efficiency of most of the states falls in the range of 93-96%.

Key Trackable this Quarter

❑ Improvement in assets quality trend will be crucial.

❑NIM performance due to rising bond yield.

❑Management commentary on AUM growth outlook.

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

Magma Fincorp Ltd

MGMA IN

CMP	**110**
Target	**131**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	0.9%	10.2%	13.3%	14.8%
Roa%	0.1%	1.5%	2.1%	2.3%
Div Yield%	0.8%	0.5%	0.9%	1.1%
Book Value	92	98	104	119
P/B	1.2	1.6	1.1	0.9

	FY17	FY18	FY19E	FY 20E	Q3FY18	Q2FY19	Q3FY19E
AUM	16,101	15,555	17,577	20,038	15,252	16,623	17,082
AUM Growth%	*-11%*	*-3%*	*13%*	*14%*	*-12%*	*6%*	*12%*
Borrowings	10,096	9,829	13,020	14,843	9,506	12,165	12,378
Borrowings Growth%	*-15%*	*-3%*	*32%*	*14%*	*-12%*	*1%*	*30%*
Disbursement (Rs Cr)	1,478	2,233	2,461	3,406	1,939	2,200	1,879
GNPA%	6.7%	7.0%	8.5%	6.6%	7.1%	9.5%	9.0%
NNPA%	5.6%	5.2%	3.9%	3.0%	5.3%	4.4%	4.2%
Net Interest Income	1,105	1,162	1,199	1,377	359	350	364
NII Gr	*-3%*	*5%*	*3%*	*15%*	*17%*	*12%*	*1%*
Opex	620	701	696	750	176	171	177
Opex Growth%	*-2%*	*13%*	*-1%*	*8%*	*9%*	*19%*	*1%*
Pre-provision Profit	654	691	777	932	194	194	202
PPP Gr	*-4%*	*6%*	*12%*	*20%*	*21%*	*6%*	*4%*
Provisions	607	374	292	283	102	87	59
Net Profits	13	230	340	442	65	77	100
Profit Gr%	*-94%*	*1712%*	*48%*	*30%*	*78%*	*5%*	*54%*
NIM% (Cal.)	6.4%	7.3%	7.2%	7.3%	9.3%	8.8%	8.6%
Cost to Income%	48.7%	50.3%	47.2%	44.6%	47.5%	46.8%	46.7%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ Management has only been able to pass on the rate hike by only 50-80 bps while the hike in cost of fund was in the range of 70-120 bps. The rate hike was only for incremental disbursement, the entire portfolio is of fixed nature. We expect NIM to marginally decline in 2H FY19 till the rate hikes add to the margins.

❑Due to tight liquidity and declining auto sales in 3Q FY19, disbursement growth for MAGMA is expected to slow down in 3Q FY19, however with low base impact, AUM growth of 10-12% in 3Q FY19. AUM growth would be driven by higher yielding segment like used, LCV & tractor finance to protect margins. We expect borrowing growth to also get impacted during 3Q FY19 for MAGMA.

❑Collection efficiency has risen across product portfolio. Management optimistically has given guidance of 1.6% credit cost going ahead YoY. Assets Quality has been improving and we expect the trend to continue in FY19. PCR has improved to 56% which is also a key positive for lower credit cost going ahead.

Key Trackable this Quarter

❑ Borrowing growth and AUM growth outlook

❑Rise in cost of fund and Yield outlook.

❑Assets quality trend

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

Manappuram Finance Limited

Financials-Nbfc

MGFL IN

CMP	**93**
Target	**103**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	24.7%	18.6%	21.6%	20.2%
Roa%	5.4%	4.1%	4.7%	4.4%
Div Yield%	2.6%	0.5%	2.7%	2.7%
Book Value	40	46	53	68
P/B	2.5	2.4	1.7	1.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	13,657	15,765	19,233	23,080	14,650	17,191	17,287
AUM Growth%	*19%*	*15%*	*22%*	*20%*	*1%*	*25%*	*18%*
Borrowings	9,163	10,240	12,737	15,386	9,429	11,354	11,373
Borrowings Growth%	*-5%*	*12%*	*24%*	*21%*	*-23%*	*30%*	*21%*
GNPA%	2.0%	0.7%	0.9%	1.0%	0.7%	0.7%	0.7%
NNPA%	1.7%	0.3%	0.4%	0.5%	0.4%	0.2%	0.2%
Net Interest Income	2,219	2,396	2,824	3,384	611	697	723
NII Gr	*58%*	*8%*	*18%*	*20%*	*5%*	*19%*	*18%*
Opex	965	1,222	1,423	1,754	341	344	360
Opex Growth%	*16%*	*27%*	*16%*	*23%*	*43%*	*11%*	*5%*
Pre-provision Profit	1,275	1,227	1,455	1,699	282	366	377
PPP Gr	*116%*	*-4%*	*19%*	*17%*	*-19%*	*28%*	*34%*
Provisions	109	210	74	115	17	16	19
Net Profits	756	671	898	1,033	173	224	233
Profit Gr%	*114%*	*-11%*	*34%*	*15%*	*-14%*	*41%*	*34%*
NIM% (Cal.)	17.7%	16.3%	16.1%	16.0%	17.6%	17.4%	17.3%
Cost to Income%	43.1%	49.9%	49.4%	50.8%	54.7%	48.4%	48.8%

*YoY not comparable due to IND AS

Conso/Fig in Rs Cr

❑ Cost of fund has been rising and hence management has stopped several discounting schemes on online gold loan and increased interest rate to support margins. NIM is likely to have marginal pressure and going ahead due to change in portfolio mix; yield is likely to fall gradually over a period of time. NII is expected to grow at 18% YoY and PAT growth is likely to improve to 34% YoY due to lower base effect.

❑ MGFL had around 26% of borrowings from CP market as on 2Q FY19 and tightening of liquidity would result in flattish AUM growth in 3Q FY19. But it is likely to grow by 18% on YoY basis due to lower base impact. Growth is likely to be driven by non-gold loan segment (CV, Housing & 2W).

❑ Improved collection efficiency reflects strong asset quality. GNPA & PCR has been improving quarter on quarters. Going ahead we expect management to continue conducting auctions and keeping the GNPA at 70 bps in 3QFY19.

Key Trackable this Quarter

❑ Disbursement growth will be important.

❑ Borrowing growth and change in borrowing mix

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

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

Muthoot Finance Limited

Financials-Nbfc

MUTH

CMP	**516**
Target	**566**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	19.4%	24.1%	23.1%	22.6%
Roa%	4.1%	5.5%	5.8%	5.9%
Div Yield%	2.0%	1.8%	1.6%	1.6%
Book Value	163	194	234	283
P/B	2.3	2.1	2.2	1.8

	FY17	FY18	FY19E	FY 20E	Q3FY18	Q2FY19	Q3FY19E
AUM	27,279	29,138	33,801	38,871	28,265	32,319	32,222
AUM Growth%	*12%*	*7%*	*16%*	*15%*	*5%*	*17%*	*14%*
Borrowings	21,096	21,268	25,414	29,447	21,096	24,334	24,046
Borrowings Growth%	*13%*	*1%*	*19%*	*16%*	*1%*	*9%*	*14%*
GNPA%	2.1%	7.0%	2.5%	2.0%	5.6%	1.9%	1.9%
NNPA%	1.7%	6.2%	0.9%	0.7%	4.9%	0.1%	0.2%
Net Interest Income	3,346	4,222	4,559	5,181	1,085	1,109	1,140
NII Gr%	*32%*	*26%*	*8%*	*14%*	*50%*	*-5%*	*5%*
Opex	1,267	1,307	1,514	1,512	321	367	379
Opex Growth%	*32%*	*25%*	*7%*	*14%*	*7%*	*18%*	*18%*
Pre-provision Profit	2,186	2,997	3,072	3,699	777	748	768
PPP Gr%	*48%*	*37%*	*3%*	*20%*	*73%*	*-13%*	*-1%*
Provisions	265	240	38	110	56	3	8
Net Profits	1,180	1,720	1,972	2,333	464	484	494
Profit Gr%	*46%*	*46%*	*15%*	*18%*	*59%*	*9%*	*6%*
NIM% (Cal.)	13.0%	15.0%	14.5%	14.3%	15.6%	14.7%	14.6%
Cost to Income%	36.7%	30.4%	33.0%	29.0%	29.3%	32.9%	33.0%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

- ❑ Cost of fund has been rising recently impacting the NIM performance but management has been able to pass on the entire increase in cost to customer which will have positive impact on NIM during 4Q FY19. Hence NIM might get marginal pressure in 3Q FY19 but will get positive impact in 4Q FY19.

- ❑Net income growth is expected to remain muted at 4.4% & PAT is expected to grow at 7% in 3QFY19. Operating expenditure is expected to 18% with rapid expansion to different areas.

- ❑Loan book is expected to remain flat on sequential basis but will grow at 14% on YoY basis. Recently Muthoot has shown positive sign of improvement in AUM growth after severely impacted during demonetization period. Adding new branches and increase in gold prices has helped this revival. Management expects to grow the book by 15% plus in FY19.

- ❑Collection has been strong over the past few quarters. GNPA & PCR has been improving. We expect GNPA to further improve going ahead. Muthoot is sitting on extra provisions of around Rs 200 Cr in balance sheet which will ensure lower credit cost for next few quarters.

Key Trackable this Quarter

- ❑ NIM performance will be watched closely
- ❑ Opening of new branches
- ❑ Pick up in AUM growth will be important

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

Power Finance Corporation Ltd

Financials-Nbfc

POWF IN

CMP	**107**
Target	
Upside	
Rating	**UNDER REVIEW**

	FY17	FY18	FY19E	FY20E
Roe%	5.9%	15.3%	14.3%	16.2%
Roa%	0.8%	2.1%	1.9%	2.0%
Div Yield%	3.8%	9.1%	7.0%	7.9%
Book Value	138	151	150	166
P/B	0.5	0.6	0.7	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	245,524	278,914	312,384	349,870	262,110	292,647	296,184
AUM Growth%	*3%*	*14%*	*12%*	*12%*	*10%*	*13%*	*13%*
Borrowings	202,589	229,539	260,320	296,500	213,707	243,485	244,780
Borrowings Growth%	*1%*	*13%*	*13%*	*14%*	*10%*	*17%*	*15%*
Disbursement (Rs Cr)	28,384	26,852	28,115	31,488	10,893	17,506	11,847
GNPA%	3.2%	9.6%	9.5%	5.0%	5.7%	9.7%	9.6%
NNPA%	2.4%	7.4%	4.6%	2.4%	4.2%	4.7%	4.6%
Net Interest Income	9,837	8,616	9,070	10,878	6,127	6,908	7,233
NII Gr	*-7%*	*-12%*	*5%*	*20%*	*-38%*	*-9%*	*31%*
Opex	381	391	410	501	68	111	110
Opex Growth%	*17%*	*2%*	*5%*	*22%*	*10%*	*-56%*	*61%*
Pre-provision Profit	10,205	9,142	8,747	10,909	1,893	1,982	2,269
PPP Gr	*-5%*	*-10%*	*-4%*	*25%*	*-37%*	*-12%*	*20%*
Provisions	5,094	815	229	819	(219)	(74)	110
Net Profits	2,126	5,855	5,689	6,760	1,604	1,355	1,446
Profit Gr%	*-65%*	*175%*	*-3%*	*19%*	*-21%*	*10%*	*-10%*
NIM% (Cal.)	4.1%	3.3%	3.1%	3.3%	2.8%	3.2%	3.2%
Cost to Income%	3.6%	4.1%	4.5%	4.4%	3.5%	5.3%	4.6%

*YoY not comparable due to IND AS — Std/Fig in Rs Cr

❑ Cabinet has approved PFC to acquire 52.6% stake of Government in REC. The pricing details of the deal is yet to be finalized. PFC will have to raise the debt or can raise the capital for the completion of the deal. However due to uncertainty over the funding, we have not factored the acquisition in our estimates. Debt funding will likely to have major impact on Capital ratios.

❑ PFC is the leading financier of power generating asset. It has grown its book despite underlying stress in the power sector, by an average rate of 12% for last one year. With rising power demand and upcoming Greenfield renewable projects, we expect PFC to grow around 13% in 3Q FY19.

❑ With the PCR of 52% on NPA as well as around Rs 2000 Cr of contingent provisions provides cushion on against any large haircut on power stress assets going ahead. We expect lower credit cost to boost profitability going ahead.

❑We are little cautious on PFC's exposure towards IL&FS in 5 SPVs amounting to Rs 2500 Cr. These are commissioned wind projects with good PPAs. ORIX Corporation of Japan is likely to take over majority ownership.

Key Trackable this Quarter

❑ NIM Performance

❑ Improvement is asset quality

❑ Management commentary on the impact of acquisition deal on financials

The stock is UNDER REVIEW.

Rural Electrification Corp Ltd

Financials-Nbfc

RECL IN

CMP	**122**
Target	**161**
Upside	**32%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	20.2%	13.5%	18.5%	18.6%
Roa%	3.0%	2.0%	2.5%	2.3%
Div Yield%	5.3%	7.3%	8.0%	8.8%
Book Value	169	180	178	202
P/B	0.5	0.7	0.7	0.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
AUM	201,929	239,449	277,761	322,203	224,014	256,968	264,337
AUM Growth%	*0%*	*19%*	*16%*	*16%*	*11%*	*19%*	*18%*
Borrowings	167,517	198,791	233,412	275,387	182,342	215,603	222,132
Borrowings Growth%	*-1%*	*19%*	*17%*	*18%*	*9%*	*23%*	*22%*
Disbursement (Rs Cr)	20,572	22,285	11,110	12,888	12,892	24,226	10,573
GNPA%	2.4%	7.2%	6.5%	3.5%	3.0%	7.9%	7.8%
NNPA%	1.6%	5.7%	3.4%	1.8%	2.0%	4.3%	4.1%
Net Interest Income	9,485	7,919	9,221	11,226	2,081	2,283	2,351
NII Gr	*3%*	*-17%*	*16%*	*22%*	*-5%*	*3%*	*13%*
Opex	352	344	583	727	88	148	153
Opex Growth%	*4%*	*-2%*	*70%*	*25%*	*-7%*	*122%*	*73%*
Pre-provision Profit	9,969	8,267	10,021	11,465	2,080	2,590	2,594
PPP Gr	*9%*	*-17%*	*21%*	*14%*	*-16%*	*15%*	*25%*
Provisions	1,109	1,416	429	1,037	205	64	98
Net Profits	6,246	4,647	6,553	6,987	1,296	1,764	1,673
Profit Gr%	*11%*	*-26%*	*41%*	*7%*	*-26%*	*25%*	*29%*
NIM% (Cal.)	4.7%	3.6%	3.6%	3.7%	3.9%	3.8%	3.8%
Cost to Income%	3.4%	4.0%	5.5%	6.0%	4.1%	5.4%	5.6%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Cabinet has approved PFC to acquire 52.6% stake of Govt in REC. Proposed this deal REC will become subsidiary of PFC. Going forward merger between REC and PFC cannot be ruled out.

❑Loan book is expected to grow by 18% YoY in 3QFY19. Loan book is expected to be driven by T&D and renewable segment. Management stated that demand in power has been improving. Further management has been focusing on better rated and operation client to drive the growth.

❑ Due to focus on operational projects and better rated client, NIM is likely to remain under 4% as against historical NIM of above 4%. However we expect assets quality to improve and credit cost will reduce in long term boost the profitability. Net income is expected to grow around 27% YoY and PAT is expected to grow by 29% YoY in 3Q FY19.

❑We don't expect any major hit on asset quality going forward as the pain in private sector companies has been majorly recognized. 87% of the book has state exposure for which management is confident of being never default. With few projects i.e. Lanco Anpara, SR Transmission, Gati, Dans energy are in the advance stage of resolution, we expect GNPA to trend downwards in couple of quarters.

Key Trackable this Quarter

❑ Assets quality trend.

❑ NIM performace

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

Shriram Transport Finance

SHTF IN

Financials-Nbfc

CMP	**1240**
Target	**1470**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11.7%	13.1%	17.7%	18.4%
Roa%	1.8%	1.9%	2.5%	2.5%
Div Yield%	0.8%	0.9%	0.9%	0.9%
Book Value	498	554	691	817
P/B	2.2	2.6	1.8	1.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19E	Q3FY19E
AUM	78,761	95,306	112,461	131,580	90,019	104,380	106,222
AUM Growth%	*8%*	*21%*	*18%*	*17%*	*18%*	*21%*	*18%*
Borrowings	53,110	63,320	96,121	114,417	59,120	88,202	89,262
Borrowings Growth%	*7%*	*19%*	*52%*	*19%*	*16%*	*21%*	*51%*
Disbursement (Rs Cr)	39,100	50,730	60,031	72,404	13,378	13,803	15,933
GNPA%	8.2%	9.2%	8.5%	7.5%	8.0%	8.6%	8.6%
NNPA%	2.7%	2.8%	5.6%	5.3%	2.5%	6.0%	5.7%
Net Interest Income	5,521	6,735	8,062	9,501	1,709	2,055	2,039
NII Gr	*8%*	*22%*	*20%*	*18%*	*21%*	*25%*	*19%*
Opex	1,229	1,489	1,871	2,204	383	457	479
Opex Growth%	*-6%*	*21%*	*26%*	*18%*	*32%*	*29%*	*25%*
Pre-provision Profit	4,368	5,494	6,256	7,355	1,349	1,623	1,576
PPP Gr	*12%*	*26%*	*14%*	*18%*	*18%*	*23%*	*17%*
Provisions	2,444	3,122	2,397	2,505	585	684	579
Net Profits	1,257	1,568	2,506	3,152	496	610	648
Profit Gr%	*7%*	*25%*	*60%*	*26%*	*43%*	*23%*	*31%*
NIM% (Cal.)	7.3%	7.7%	7.8%	7.8%	8.1%	8.4%	8.0%
Cost to Income%	22.0%	21.3%	23.0%	23.1%	22.1%	22.0%	23.3%

*YoY not comparable due to IND AS

Std/Fig in Rs Cr

❑ Strong construction demand & strong replacement demand is expected to drive CV sales. Pre-buying demand before emission norm changes will keep demand elevated for couple of quarter. However with weak demand during festive season, we expected AUM growth in the range of 18-20% YoY.

❑MARGIN is expected to remain under pressure due to the continuous rise in cost of fund. NII is expected to 20% in 3QFY19.

❑Management focus on investment in branches, employees & field staff will cause the cost to income ratio remain elevated in the medium term, operating expense growth is expected to grow at 26% YoY.

❑ Strong collection efficiency will result in improved asset quality. GNPA is expected to improve to 8.60% in 3QFY19. Lower credit cost to drive PAT growth going ahead. PAT growth is expected at 31% in 3QFY19

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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