Repco Home Finance

BUY

INDUSTRY	HFCs
CMP *(as on 14 Mar 2017)*	Rs 634
Target Price	Rs 775
Nifty	9,087
Sensex	29,443

KEY STOCK DATA	
Bloomberg	REPCO IN
No. of Shares (mn)	63
MCap (Rs bn) / ($ mn)	40/603
6m avg traded value (Rs mn)	110

STOCK PERFORMANCE (%)

52 Week high / low			Rs 900/487
	3M	6M	12M
Absolute (%)	18.0	(23.6)	8.6
Relative (%)	7.7	(27.5)	(10.5)

SHAREHOLDING PATTERN (%)	
Promoters	37.13
FIs & Local MFs	23.47
FIIs	24.53
Public & Others	14.87

Source : BSE

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Great, and finally affordable

Repco Home Finance is a niche player in the small-ticket housing finance market (median Rs 0.8 mn). It focusses on underserved markets, especially the self-employed in Tier II and III cities. Factors like low mortgage penetration, government's impetus for 'Housing for All' and incentives for affordable housing bode well for Repco.

We expect the loan book to rise at 20% CAGR over FY16-19E. Repco enjoys low cost of funds due to its AA rating and is well capitalised (~20%). Spreads of 3% will continue with negligible exposure to the commoditised salaried class. Strong credit appraisal, and a deep understanding of client segments and geographies is a key edge.

NPAs have shot up post demonetisation, led by slippages in the big ticket LAP book. Management is confident of recovery, as slipped LAP loans have LTVs under 50%. Sales focus in LAP is now on lower ticket sizes only. We have built high credit costs (50-60bps for FY17/18E) and see RoA/RoE at 2.26/19.3% in FY19E. The stock has corrected by ~20%, providing an attractive entry point. Initiate with a BUY and TP of Rs 775/sh, based on 3.2x FY19E ABV.

- **Huge opportunities:** At 9%, India's mortgage penetration is low, with Tier II and III cities witnessing even lower levels this offers Repco huge growth opportunities, especially in the affordable housing segment.
- **Niche segment:** Repco largely provides home loans (79%) and non-housing loans (21%) in low ticket sizes. Competition is low, especially in the self-employed segment, due to income assessment-related challenges. This segment offers spreads which are 150bps higher than those of the salaried class.
- **High soft delinquency:** 30 days+ overdues hover at ~12%. They rose to 14.7% in 1HFY17, due to defaults in the above-Rs 0.5 mn loans bracket, especially LAP. However, write-offs at 0.05% of total disbursements since inception have been negligible, and highlight strong appraisal, underwriting and recovery capabilities. NPAs rose sequentially from 2.4 to 4.2% due to demonetisation, and are expected to normalise to 1.7% by FY19. Inability to resolve asset quality issues remains a key risk.
- **Concentrated presence:** Repco's loan book is mainly in TN, which contributes 62% to the business.

FINANCIAL SUMMARY

(Rs mn)	FY16	FY17E	FY18E	FY19E
Net Interest Income	3,039	3,589	4,206	5,091
PPOP	2,693	3,203	3,731	4,520
PAT	1,501	1,660	2,020	2,737
EPS (Rs)	24.0	26.5	32.3	43.8
ROAA (%)	2.17	1.97	2.02	2.26
ROAE (%)	17.0	16.1	16.9	19.3
Adj. BVPS (Rs)	146.8	157.2	198.2	241.3
P/ABV (x)	4.32	4.03	3.20	2.63
P/E (x)	26.4	23.9	19.6	14.5

Source: Bank, HDFC sec Inst Research

Repco Home is a strong player in the small ticket size loans, with a focus on smaller cities

Self-employed category remains a key focus, with a contribution of 60% to the business mix

Niche focus

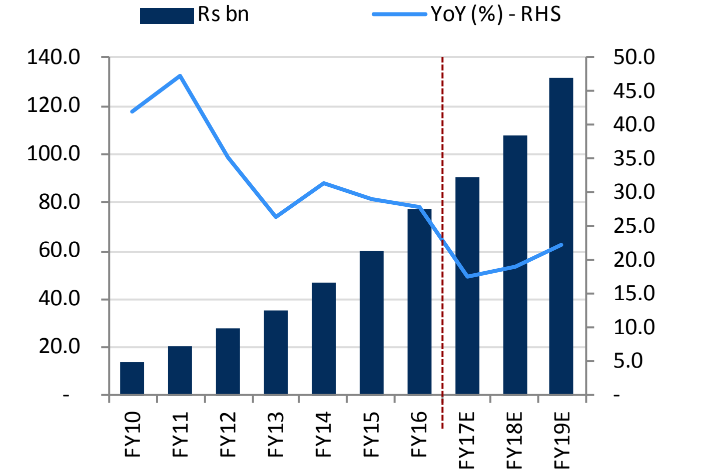
- Repco is a niche player in the small ticket size housing loan segment (median Rs 0.8 mn), focussing on Tier II and III cities, and peripheries of Tier I cities, largely in South India. <u>It has an impeccable record of a loan book growth of 30% CAGR over the last 5 years, with stable asset quality and strong return ratios</u>.
- Repco focusses on the non-salaried segment which offers better yield on advances, owing to challenges in the underwriting process for this class of borrowers. This requires diligent processes, which Repco has built over the last decade. <u>Currently, the salaried/non-salaried segments contribute 40/60% respectively to its loan book.</u>
- In the mortgage business, the share of housing finance companies has increased as compared to banks, due to a focussed approach and better customer service. However, in FY16, competition from banks has been higher, leading to them increasing their market share as they shifted focus to retail book due to a weak corporate capex cycle**.**
- Tier II and III cities have lesser competition as compared to Tier I markets. PSU banks have a strong presence here, but poor customer service.
- The average ticket size is smaller in such cities, with more play on volumes. For eg, the average ticket size for Repco/LICH/HDFC is Rs1.3/1.8/2.2mn respectively
- <u>With mortgage loans at around 9% of GDP, the home loan market in India is underpenetrated.</u> Increasing per capita income and nuclearisation of families have led to the mortgage market expanding at a CAGR of 18% over the last 5 years. Going forward, the outlook continues to be robust.
- The Government is targeting ‘Housing for All’ by FY22. This would provide further impetus to demand for mortgage loans.

Loan book growth in the current year is expected to be low due to economic challenges such as demonetisation, registration issues in TN and focus on resolving asset quality issues

Despite expansion to other regions, Southern India's domination to continue

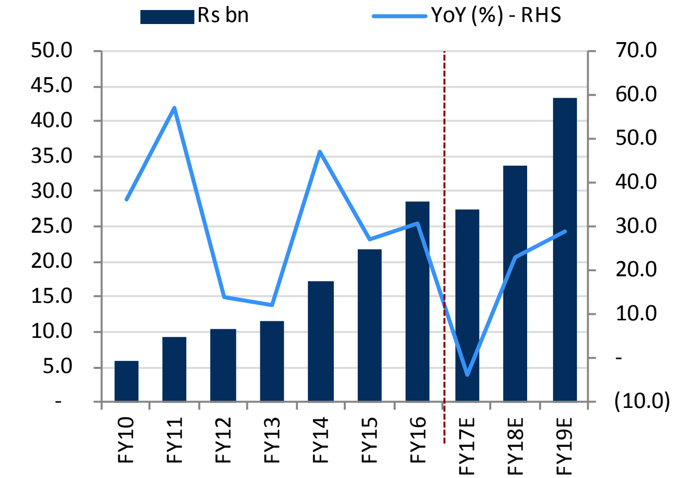
The salaried class typical consists of individuals who work in the private sector and may not include corporate employees

Loan Growth To Taper On A High Base



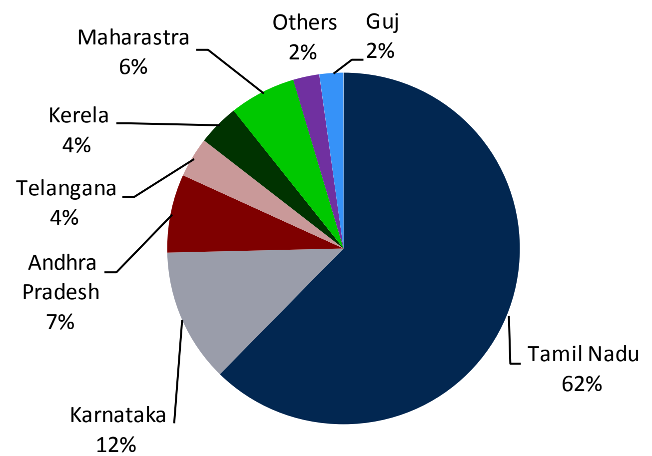
Source : Company, HDFC sec Inst Research

Disbursement Growth Has Been Lumpy



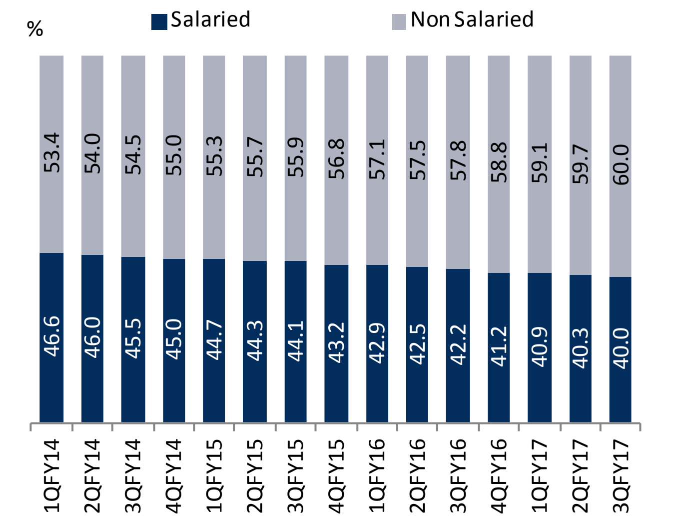
Source : Company, HDFC sec Inst Research

Business Is Concentrated In Southern Market



Source : Company, HDFC sec Inst Research

Share Of Non-Salaried Has Increased



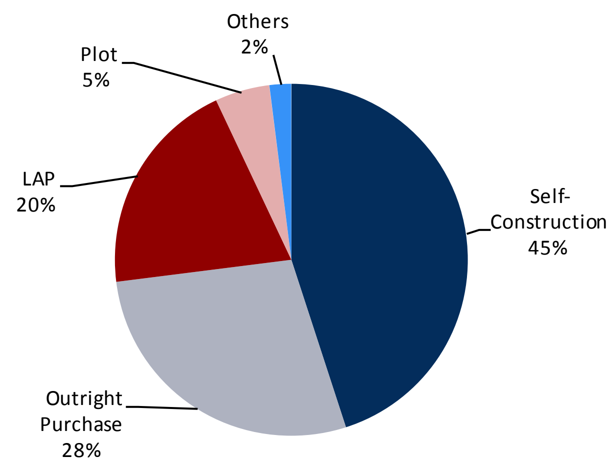
Source : Company, HDFC sec Inst Research

A majority of loans is used for self construction

Share of LAP has increased over a period of time, which fetches higher spreads

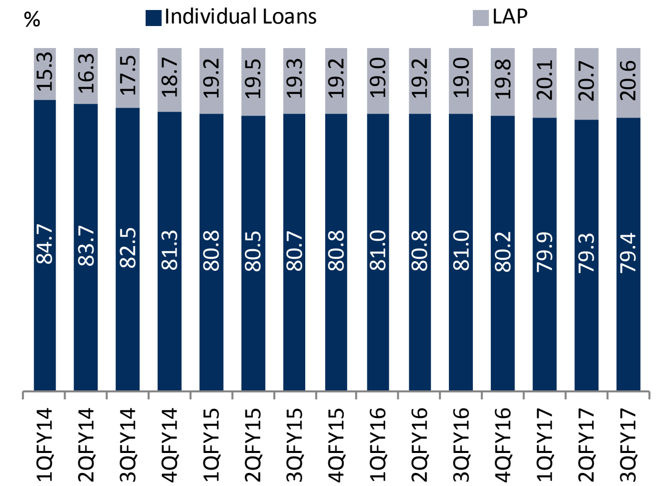
Mortgage loans have been growing at a CAGR of 18% over the last 5 years, and the outlook is equally strong

Product Mix For Repco Home



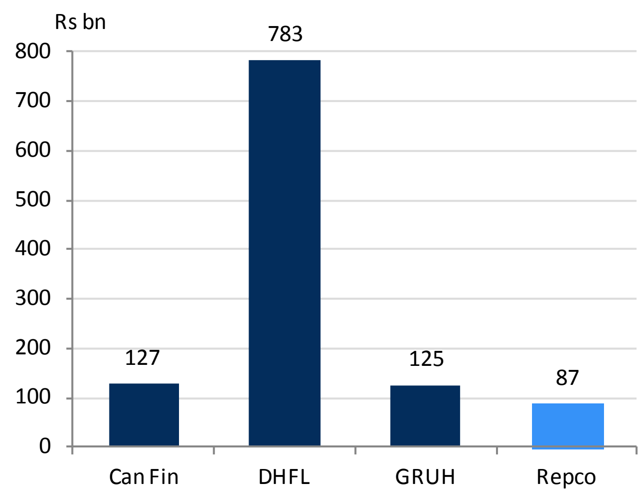
Source : Company, HDFC sec Inst Research

Share Of LAP Has Increased to ~21%



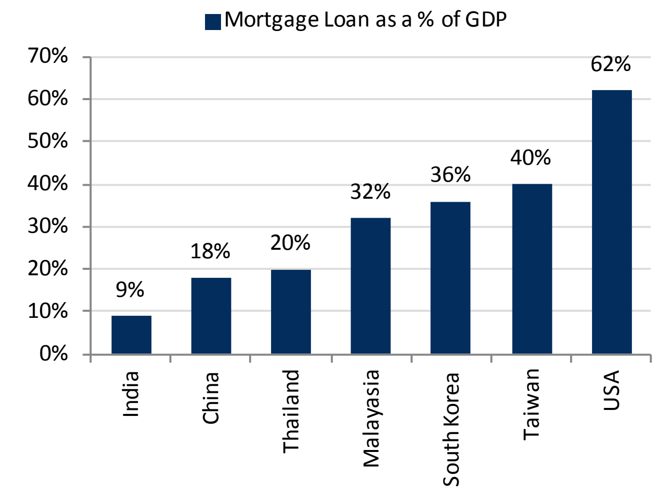
Source : Company, HDFC sec Inst Research

Repco Home Is A Mid-sized Player Amongst HFCs



Source : Company, HDFC sec Inst Research

Mortgage Loans As A % Of GDP Is Low



Source : Company, HDFC sec Inst Research

Untapped opportunities…

Self employed, especially non professionals, have a huge unmet demand

Low ticket size is not the focus for the bigger HFCs and banks

- As per the NSSO Census 2011, 42% of the total workforce in urban India is self employed. However, most of the top HFCs and banks are focussed on big ticket size home loans (above Rs 2 mn) for both the salaried class and professionals.
- Also, ticket size disbursement analysis clearly reveals the focus on higher ticket deals by a majority of financers. However, players like Repco focus on lower ticket size loans and the self-employed category. Given under penetration levels, these segments offers strong growth prospects over the medium to long term.
- Also, the penetration of housing loans within the self-employed category is significantly lower as compared to that of the salaried class.

Majority Of Workforce Is Self Employed

(%)	Self Employed	Regular wage/ Salaried	Casual Labour
Rural	55.9	8.7	35.4
Urban	41.9	43.3	14.8
Total	**52.2**	**17.9**	**29.9**

Source : NSSO Census 2011, HDFC sec Inst Research

< Rs 1 mn Ticket Size Loan Is 13% Of Disbursements

Disbursement (HFC & PSBs) Rs Bn	FY14	% of total	FY15	% of total
<1 mn	308	15%	309	13%
>1 to<2.5 mn	776	38%	863	37%
>2.5 mn	945	47%	1,168	50%
Total	2,028	100%	2,340	100%

Source : NHB, HDFC sec Inst Research

GNPA on 2-year lagged basis is higher at 2.2%

Most banks and HFCs have found it difficult to maintain asset quality in the lower ticket size bracket

...but higher default rates

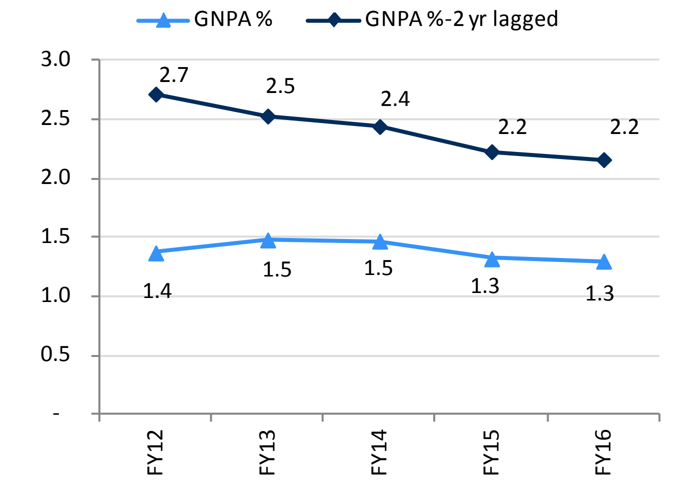
- Despite the opportunities that come with it, small ticket size loans are exposed to greater risks, thereafter higher gross NPAs. The under-Rs 1 mn home loan category of PSU banks has gross NPAs of 2.6% against 0.6-0.9% for higher ticket sizes. The reason for this is the low income level of the borrowers, the lack of margin safety and unplanned expenditure like personal emergencies.

Slab Wise O/s Loans Of PSU Banks And Gross NPA

Ticket Size Slab (Rs mn)	Outstanding Loans Rs bn		Gross NPA (%)	
	FY14	FY15	FY14	FY15
<1	1,147	1,157	**2.62**	**2.58**
>1 to<2.5	1,457	1,720	0.9	0.9
>2.5	1,147	1,533	0.6	0.6

Source: NHB report 2015

Repco Too Has Higher Gross NPAs



Source: Company, HDFC sec Inst Research

Typically, it takes the sales and credit officers 3-4 days by to assess the income of the customers in the self-employed group

Though delinquencies are higher, the collections happen with a lag

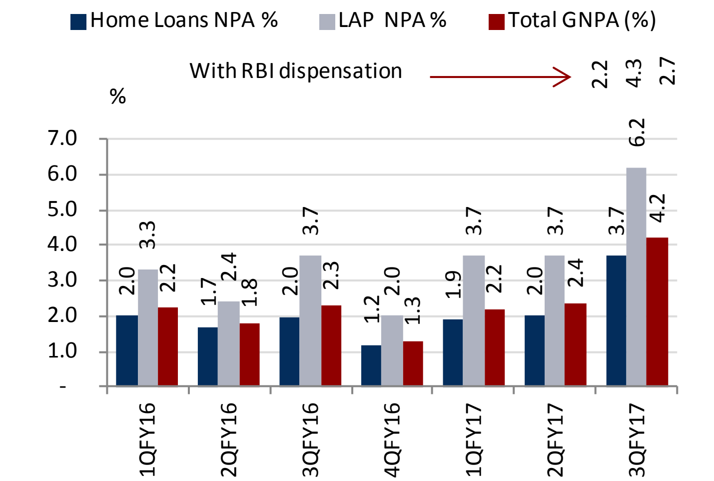
Repco is facing challenges in the last 2-3 quarters in the higher ticket size loans, especially LAPs. Resolution is expected, as loans are backed by a moderate loan-to-value ratio.

RBI dispensation allowed extra 90days for recognition of NPA for loan under Rs 10 mn turning bad between 1st Nov to 31st Dec-16

Strong underwriting & collection

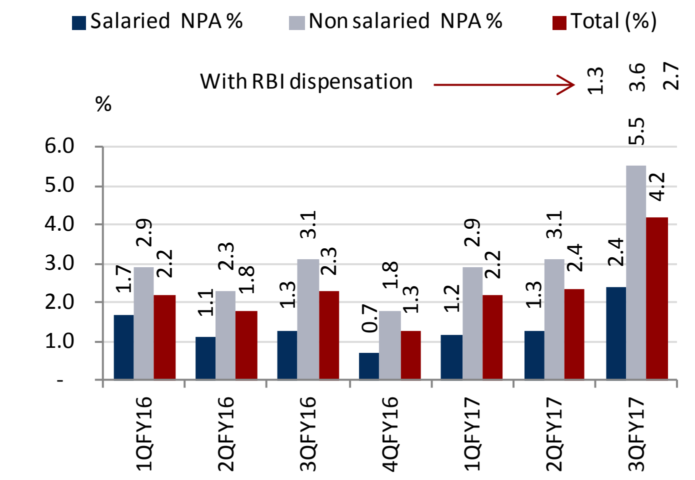
- Repco has a lending history of more than 15 years. Over a period of time, it has developed a strong underwriting, collection and recovery system. The company largely focusses on the self-employed category (60% of the loan book), especially individuals who may not have reported their income fully.
- Credit extended to the self-employed segment is largely based on 'assessed income' (as income proof is absent or inadequate), and thus the inherent risks associated with it are higher. The incentive structure is well aligned, with collections being an important parameter for Sales, Credit and Branch managers.
- The above, therefore, results in higher delinquencies, especially in softer buckets. Over the last 2-3 years, the 30-days past overdues have been around 12%. However, these increased to 14.7% in 1HFY17 due to higher defaults in the above-Rs 5 mn loan segment.
- Within the loan book, 10% of home loans and 40% of non-home loans, especially LAPs, are in the above-Rs 5mn ticket size. Nevertheless, the reported gross NPA (90+ days past overdue) figure is 2.4%, which shows the ability to recover before they become NPAs. Further, the cumulative write-offs have been negligible at 0.05% of total disbursements.
- The recent demonetisation move has also increased stress, with gross NPAs going up to 4.2% in 3QFY17. (With RBI dispensation, it stands at 2.65%)
- Management remains optimistic of resolving this, as LTV of the stressed loans is moderate (home loan at 65% and LAP at 45%.)

Product-wise NPA Trend



Source: Company, HDFC sec Inst Research

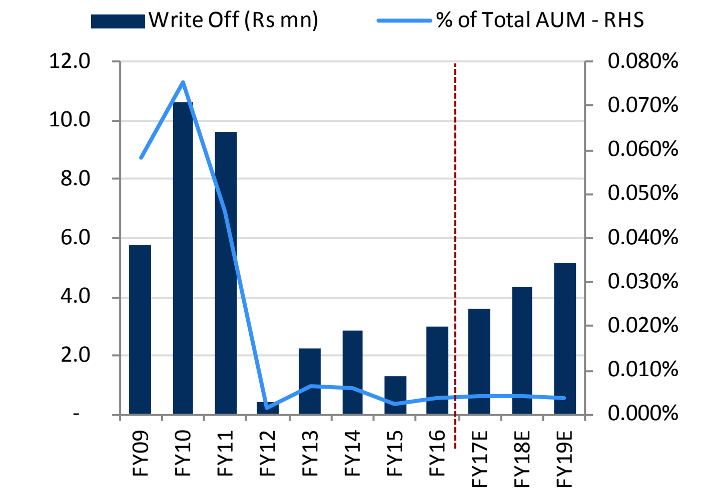
Borrower-wise NPA



Source: Company, HDFC sec Inst Research

Negligible write-offs highlight deep understanding of Repco's core segment

Creditably Low Write-offs



Source: Company, HDFC sec Inst Research

Advantage affordable housing

Affordable push has been facing supply-related challenges, which received some remedial measures in the recent Central Budget

- **Huge housing shortage:** According to a KPMG report, India currently has a shortage of ~60 mn housing units. The requirement is expected to rise to 111 mn units by FY22. Urban housing is expected to account for about 85 to 90% of the total as people migrate to urban areas. Affordable urban housing is expected to form ~70% of the total requirement for urban housing. Further, of the total requirement of 111 mn units, nine states (Uttar Pradesh, Bihar, Maharashtra, West Bengal, Madhya Pradesh, Andhra Pradesh – incl Telangana, Rajasthan, Tamil Nadu, and Karnataka) will be contributing ~ 70%.

Housing Shortage

Particulars (mn units)	Urban	Rural	Total
Current housing shortage	19	40	59
Required housing by 2022	26-29	23-25	49-54
Total need	**44-48**	**63-65**	**107-113**

Source: KPMG, HDFC sec Inst Research

- **Govt's focus on affordable housing:** Apart from the huge requirement for housing, the Government too has taken initiatives (on the demand as well as supply side) to provide a fillip to the affordable housing sector. To fuel the demand, the government has taken the following steps - (1) Credit-linked subsidy - interest rebates, (2) Subsidy for individual construction. On the supply side, the government has provided impetus by (1) In situ –providing land for slum redevelopment, (2) Public private partnership for affordable housing projects and 3) incentives for construction of affordable housing.

  - Pradhan Mantri Awas Yojana (PMAY) – The 'Housing for All (Urban)' mission for urban areas is being implemented for the period 2015-2022. This mission intends to provide central assistance for providing housing for all eligible families/ beneficiaries who don't own a pucca house. The Government has an ambitious target of building 20 mn homes in India, with loan disbursements of Rs 1.3 tn over the next three years.
  - The net present value (NPV) of the interest subsidy will be credited to the loan account of the borrower.
  - So far, only Rs 3.8 bn subsidy has been disbursed. With the scheme for MIG in place and supply boost, the scheme is expected to further boost demand.

Subsidy Under PMAY

Category	Income level	Size of the House	Remarks
EWS	Household income < Rs 0.3 mn	Up to 30 sq.m	Interest subsidy of 6.5 % for a tenure of 20 years or during tenure of loan whichever is lower for loan up to Rs 0.6 mn.
LIG	Household income of Rs 0.3 to Rs 0.6 mn	Up to 60 sq.m	
MIG I	Household income of Rs 0.6 to Rs 0.12 mn	Up to 90 sq.m	Interest subsidy of 4% for a tenure of 20 years or during tenure of loan whichever is lower for loan up to Rs 0.9 mn.
MIG II	Household income of Rs 1.2 to Rs 1.8 mn	Up to 110 sq.m	Interest subsidy of 3% for a tenure of 20 years or during tenure of loan whichever is lower for loan up to Rs 1.2 mn.

Source: NHB

Central govt has given strong fillip to the affordable housing segment with slew of changes

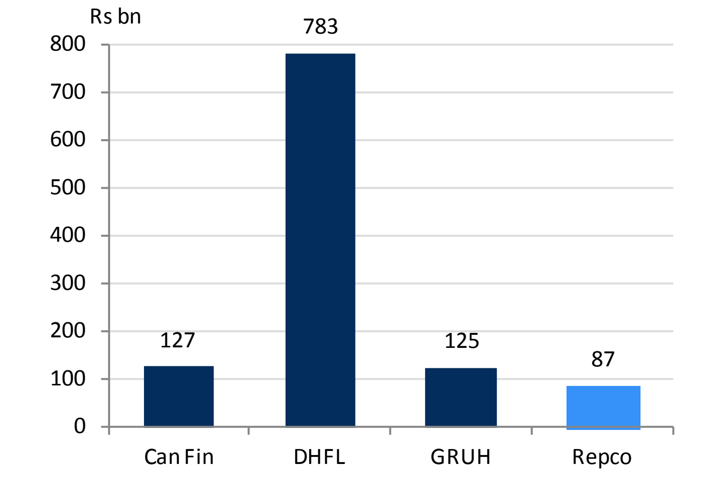
- Changes in Central Budget 2017 also support the affordable segment
    - Allocation of PMAY increased from Rs 170bn to Rs 230 bn
    - Refinancing target for NHB increased 15% to Rs 200 bn
    - Infrastructure status for affordable housing and service tax waiver
    - 'Unit size' definition for EWS and LIG changed to carpet area to increase unit size for the end-users

Self employed is key focus for Repco

Non Housing loan (LAP) has become integral part of the HFC business model

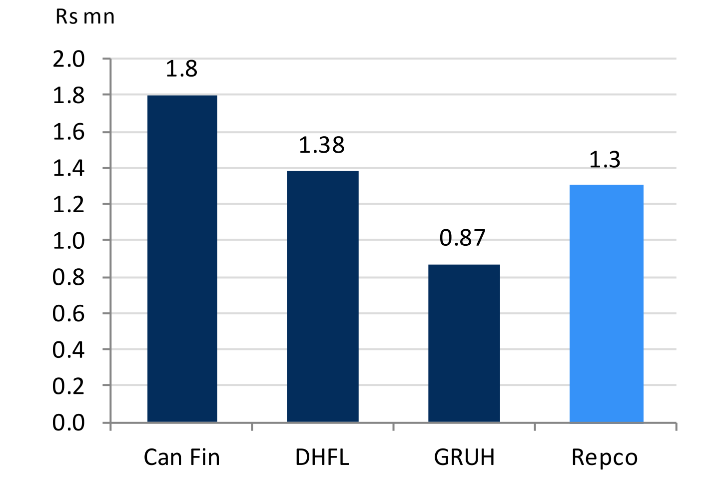
Comparison with mid-size HFCs

Repco Home Is A Mid-Sized Player



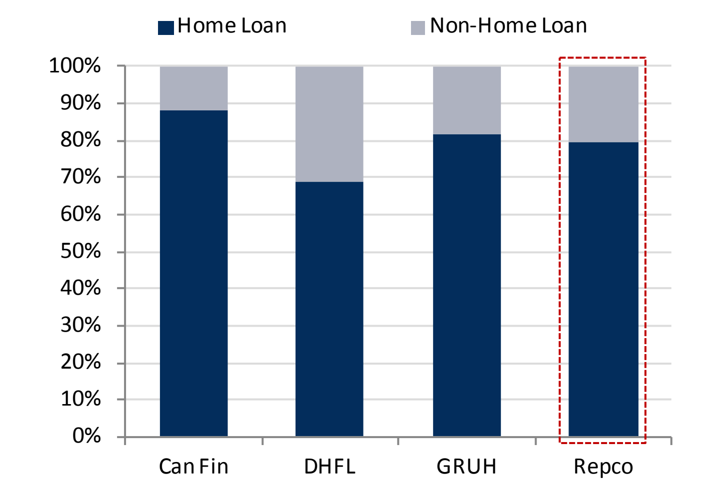
Source : Company, HDFC sec Inst Research

Avg. Ticket Size for Repco Is Lower Than Peers



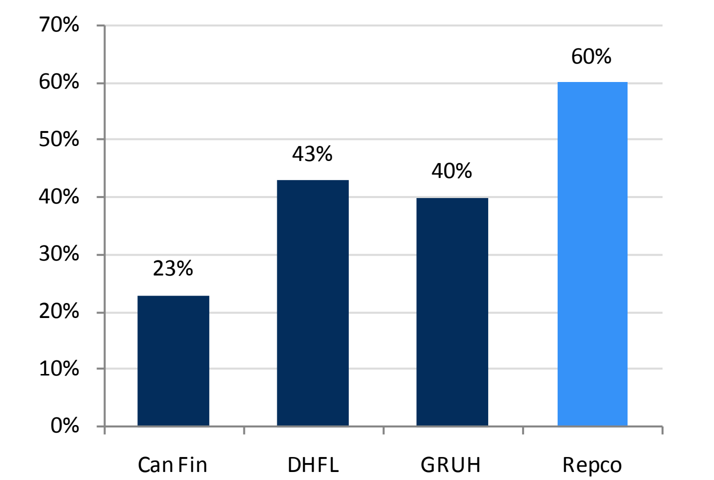
Source : Company, HDFC sec Inst Research

Product Mix Comparison



Source : Company, HDFC sec Inst Research

Self Employed Mix For Repco Is Highest Across HFCs

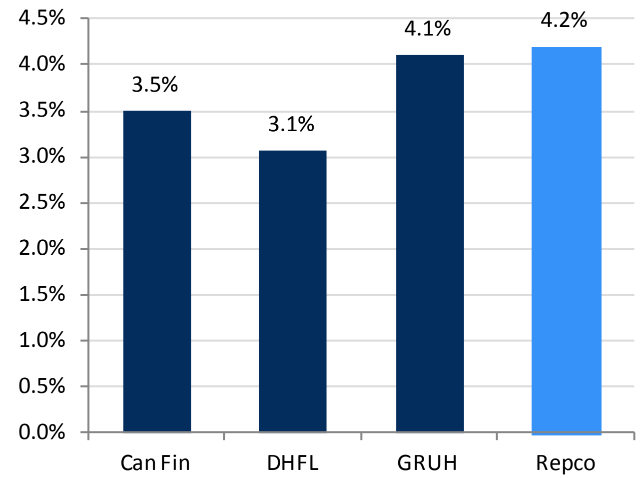


Source : Company, HDFC sec Inst Research

Repco's GNPA is high but write off very negligible

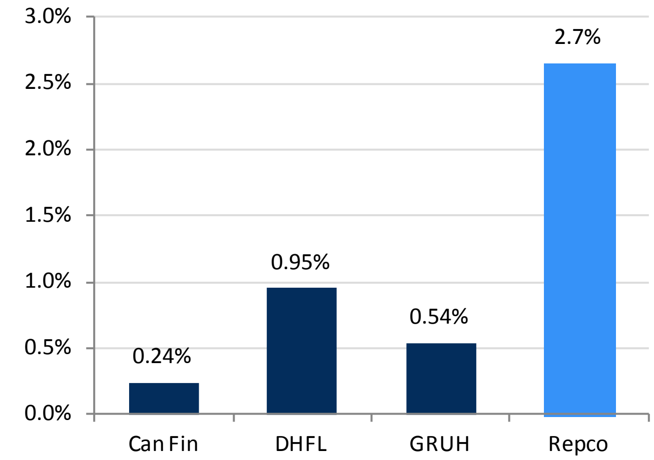
GRUH has highest ROE due to much higher leverage and strong ROA

Repco Has Highest NIMs



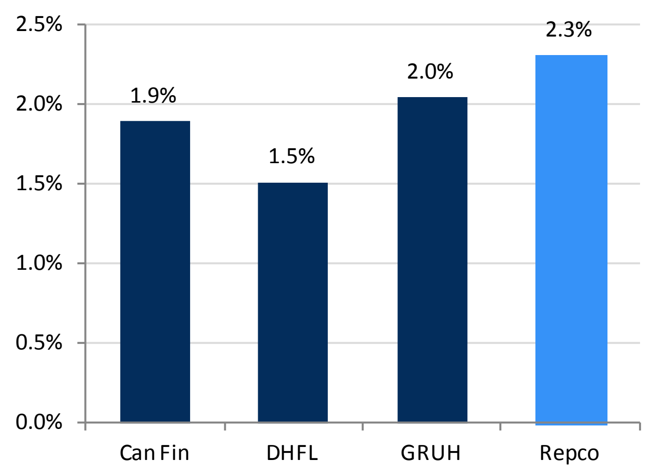
Source : Company, HDFC sec Inst Research

But Gross NPAs Highest Among Peers



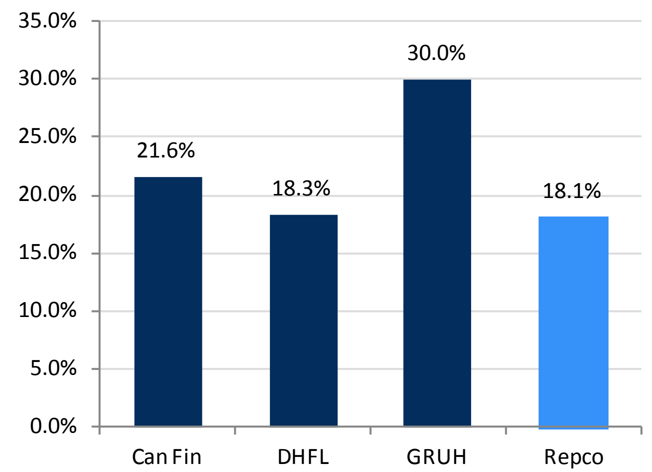
Source : Company, HDFC sec Inst Research

Strong ROA Due To Better Yield



Source : Company, HDFC sec Inst Research

ROE Comparison



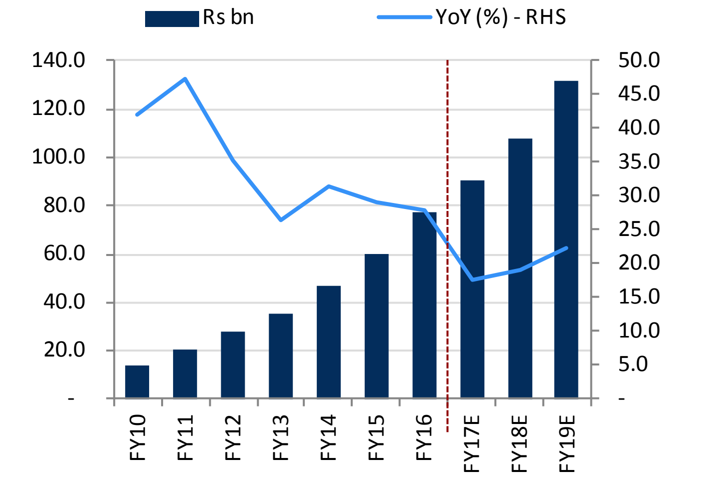
Source : Company, HDFC sec Inst Research

We expect higher loan book growth in FY19, as benefits of the Govt's push towards affordable housing takes off

Strong loan book growth; spreads to sustain

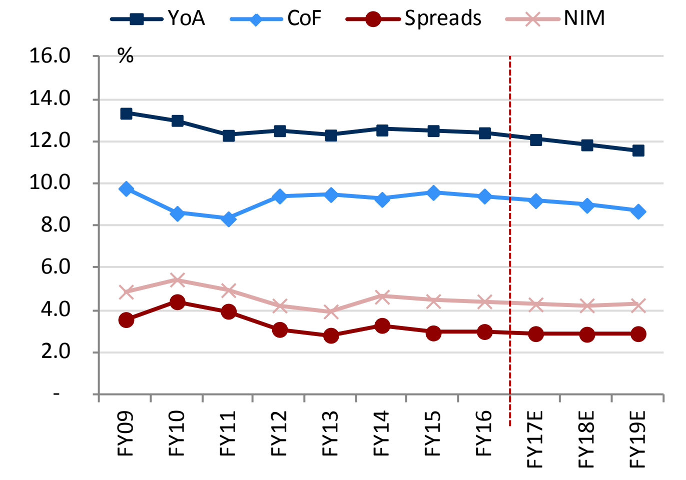
- Affordable push from the Govt. is expected to lead to a strong loan book growth of 20%. We expect Repco's yield to be marginally lower, as the benefits of lower cost of borrowings are passed on. We expect spreads of ~2.9% and NIM of ~4.2% to sustain over FY16-FY19. Loan book mix between home and non-home loans is expected to be maintained at current levels of 79% and 21% respectively.

Loan Book Growth To Improve In FY18



Source : Company, HDFC sec Inst Research

NIM To Be Maintained



Source : Company, HDFC sec Inst Research

Repco's borrowing cost from banks is largely at their respective base rates

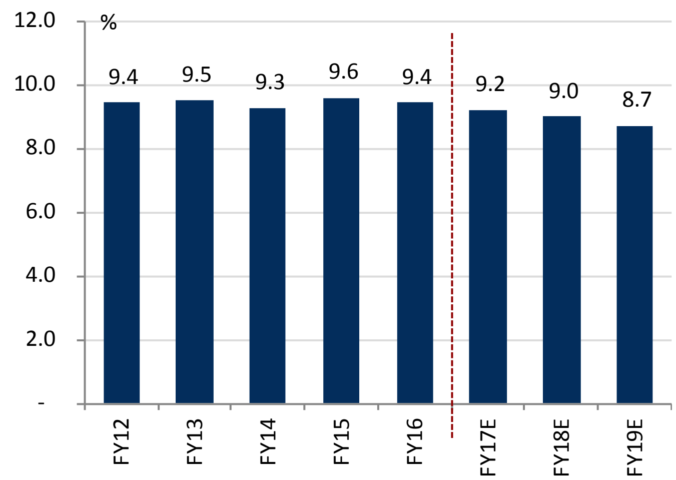
RBI's relaxation on sectoral cap for HFCs is expected to increase fund availability for the sector by ~Rs 500bn.

Competitive cost of funds

- Repco enjoys strong credit rating of AA (From ICRA), and support from its parent company Repco Bank, which is owned by the Government. The company is largely dependent on bank borrowings (62%) and NHB refinancing (18%) for its capital requirements. Strong performance and a vibrant bond market have helped it to increase the share of the whole debt market to 14%. The same is expected to increase to 20% over the next 3-4 years. Also, falling bank borrowing rates and higher contributions from other sources are expected to lower blended borrowing costs for the company.

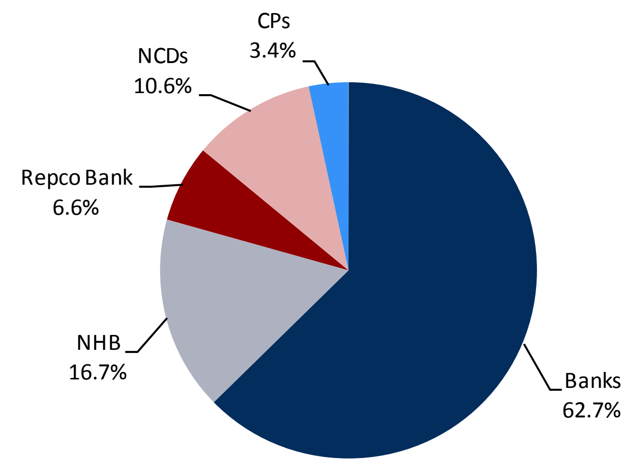
- Recently, RBI relaxed the sectoral cap on debt mutual fund exposure to HFCs from 10% to 15%. This would further increase the fund pool available to HFCs, and lead to lower costs of borrowing.

Repco's Borrowing Cost To Decline



Source : Company, HDFC sec Inst Research

Banks Dominate Funding Sources



Source : Company, HDFC sec Inst Research

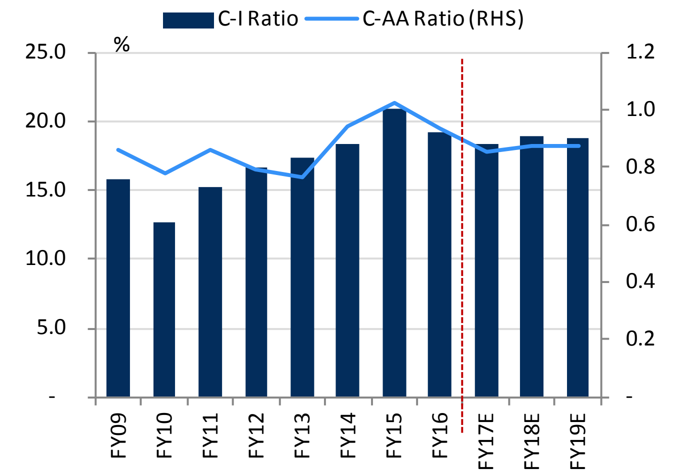
Niche lending leads to higher opex

Employee cost forms 64% of the operation cost

- Repco's cost-to-income (C/I) ratio is high at 19.3%, compared to other HFCs, given the small ticket size business and considerable effort required to assess income levels in the self-employed space.
- However, the company sources more than 60% of loans through 'loan melas' and referrals, which keeps the commission payout lower and helps manage costs. The company has diversified to many states in the last few years, resulting in an increase in the C/I ratio. With a higher loan book growth in those states, the C/I ratio is expected to trend lower. We expect it to settle at 18.8% by FY19.

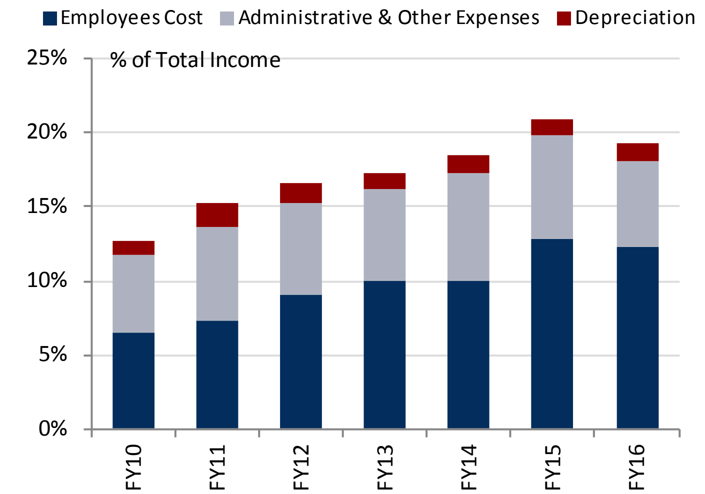
Loan melas and referrals help in sourcing loans and controlling cost

Cost-To-Income To Be Marginally Lower



Source : Company, HDFC sec Inst Research

Employee Costs High For Repco



Source : Company, HDFC sec Inst Research

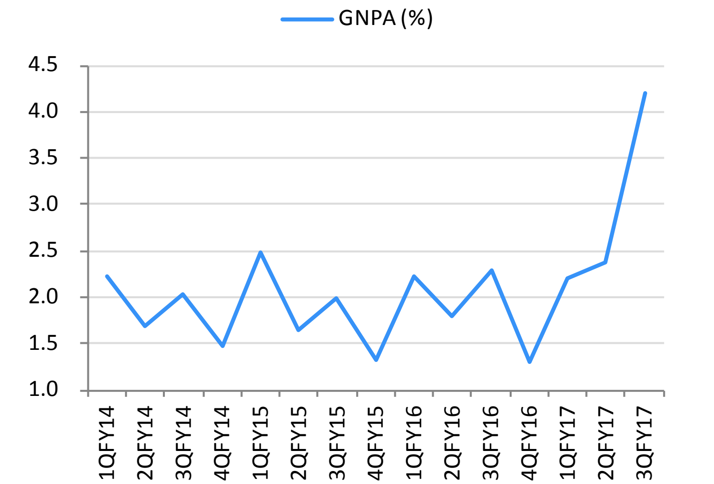
Asset quality to improve

Stress is concentrated in the LAP book.

Management remains confident of resolving stress as these loans have moderate loan to value ratio.

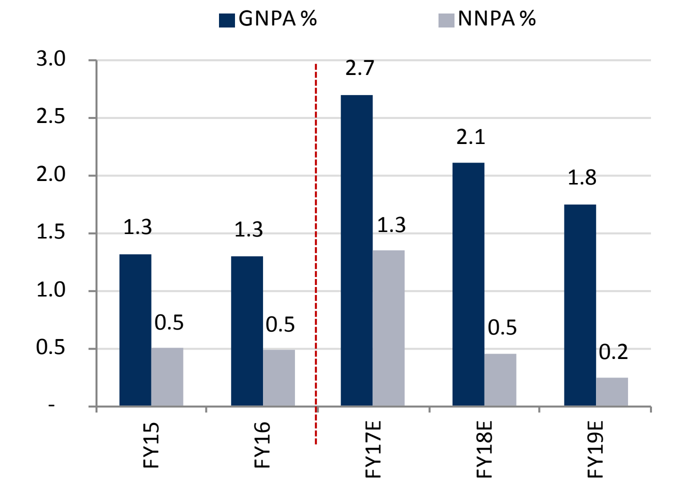
- Repco has an impeccable record of maintaining the quality of its assets. Year-end gross NPAs have been in the range of 1-1.5%, due to high exposure to small-ticket-sized loans and the self-employed category. However, cumulative write-offs have been only 0.06% of disbursements, which demonstrates the company's underwriting and recovery system.
- The recent increase in GNPAs was driven by higher delinquencies in the above-Rs 5 mn loan ticket size bucket, especially LAPs. In 3QFY17, without RBI dispensation, gross NPAs went up to 4.2% due to demonetisation, as borrowers suffered losses in their business. Management remains confident to bring it down to 1.5%-2% over the next few quarters, as these loans have a moderate Loan-to-Value (LTV) figure. However, we build in slower recovery, with gross NPA figures at 2.7/2.1/1.8% in FY17/18/19E respectively.
- We expect high credit costs for FY17 and FY18, and PCR to increase to 79%.
- For FY19, we expect normalization and credit cost of 20bps.

GNPA Has Increased In The Last 3 Quarters



Source : Company, HDFC sec Inst Research (Without dispensation)

Asset Quality Deterioration To Reverse Soon



Source : Company, HDFC sec Inst Research

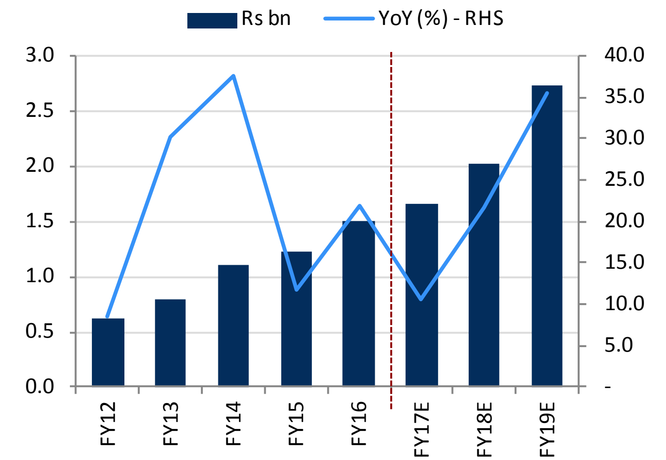
Higher leverage will increase ROE

Well capitalized for growth

Strong PAT growth; ROE at 19.3%

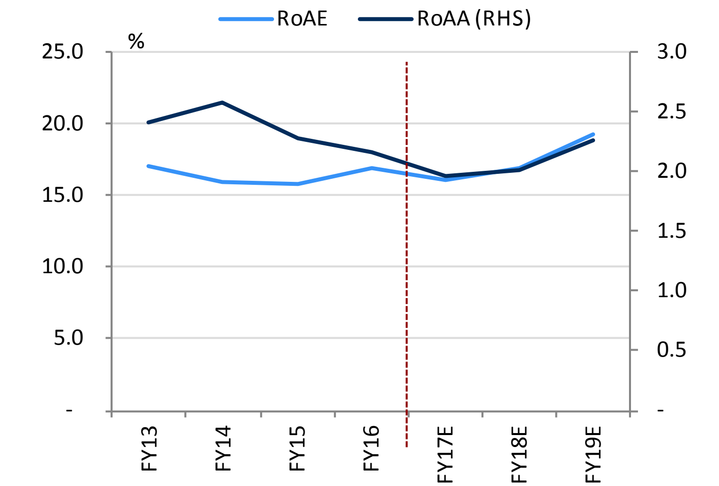
- With higher loan book growth and resolution in asset quality stress, we expect PAT to increase at a CAGR of 22% over FY16-19. ROA is expected to be 2.3%, and higher leverage would lead to ROE improving to 19.3%.

Trend In PAT



Source : Company, HDFC sec Inst Research

ROE To Improve



Source : Company, HDFC sec Inst Research

Comfortable capital position

- Repco has a strong capital base. Its CAR of 20% (Tier 1 at 7% and Tier II at 3%), is way above the regulatory requirement of 12%. It currently has a leverage of ~7x, and has headroom to increase this to 9-10x over the next 3 years. Given its focus on small ticket size loans, the average risk weight for the company is 57%.

Risk Weight On Housing Loan For HFC

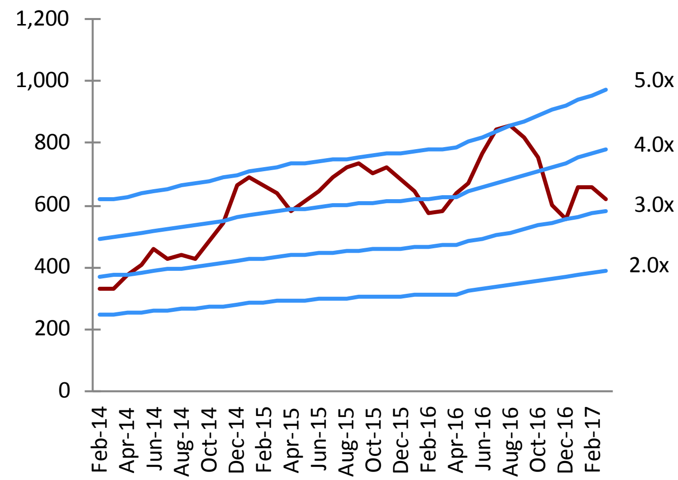
Risk Weights	Loan value cap Rs mn	LTV cap
35%	30	80%
50%	30-75	90%
75%	>75	75%

Repco is a compounding play for next few years

Valuation and view

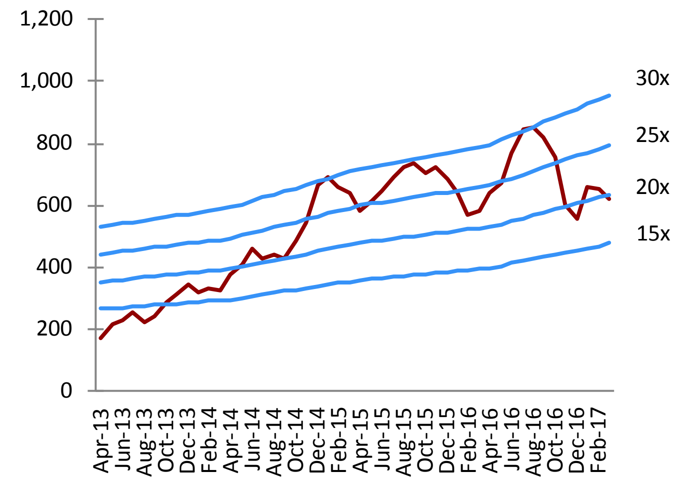
- We expect the company to be a major beneficiary of affordable housing opportunities, along with under-penetrated demand of the self-employed category. <u>The stock has corrected 20% from its peak, due to asset quality-related challenges, and is quoting at 2.6x FY19 P/ABV multiple</u>. This provides a good entry point.
- We believe the stock should trade at 3.2x FY19E ABV. We initiate coverage with a BUY rating and TP of Rs 775/sh.

1 yr Forward P/BV



Source : Company, HDFC sec Inst Research

1 yr Forward P/E



Source : Company, HDFC sec Inst Research

High NPA level remain key area of concern

Key risks

- As much as 60% of Repco's loan book is exposed to the self employed. Though we expect the company to contain its NPAs and credit costs, any inability to contain defaults is a key risk.
- With 90% of the loan book in South India, Repco has a high concentration risk.
- Any adverse changes in the HFC regulations are key monitorables, and remain a risk.
- Inability to address current asset quality issue is a key risk.

PEER VALUATION

NBFC/HFC	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			RoAE (%)			RoAA (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
LICHF	285	565	NEU	524	205	238	278	14.5	14.0	11.9	2.76	2.38	2.03	19.8	17.7	18.1	1.42	1.32	1.39
SHTF	217	957	BUY	1,434	457	499	562	15.7	13.3	11.7	2.09	1.92	1.70	12.8	13.6	13.9	1.92	2.01	1.97
MMFS	158	280	BUY	333	84	94	113	37.0	22.1	15.6	3.22	2.90	2.40	6.6	10.4	13.4	0.98	1.42	1.73
CIFC	143	918	BUY	1,294	227	276	341	20.6	15.8	12.7	4.05	3.33	2.69	17.6	19.6	20.5	2.33	2.59	2.64
SCUF	132	2,007	BUY	2,648	703	763	854	20.0	17.2	13.5	2.85	2.63	2.35	13.5	14.0	15.5	2.89	2.82	2.99
CAFL	63	685	BUY	781	194	217	217	25.9	19.6	19.6	3.53	3.16	3.16	13.4	15.6	15.6	1.50	1.65	1.65
Repco	**40**	**634**	**BUY**	**775**	**157**	**198**	**241**	**23.9**	**19.6**	**14.5**	**4.03**	**3.20**	**2.63**	**16.1**	**16.9**	**19.3**	**1.97**	**2.02**	**2.26**

Source : HDFC sec Inst Research

INCOME STATEMENT

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Interest Earned	6,691	8,521	10,136	11,755	13,905
Interest Expended	4,318	5,483	6,547	7,549	8,815
Net Interest Income	**2,373**	**3,039**	**3,589**	**4,206**	**5,091**
Other Income	239	297	332	394	476
Total Income	**2,613**	**3,336**	**3,921**	**4,600**	**5,567**
Total Operating Exp	547	643	718	869	1,046
Employee Expense	335	409	461	556	672
PPOP	**2,065**	**2,693**	**3,203**	**3,731**	**4,520**
Provisions & Contingencies	203	392	658	635	325
PBT	**1,862**	**2,301**	**2,545**	**3,096**	**4,195**
Provision for Tax	631	800	885	1,077	1,459
PAT	**1,231**	**1,501**	**1,660**	**2,020**	**2,737**

Source: Company, HDFC sec Inst Research

BALANCE SHEET

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share capital	624	625	625	625	625
Reserves and surplus	7,498	8,923	10,422	12,255	14,783
Shareholders' funds	8,121	9,548	11,047	12,880	15,409
Total Borrowings	51,044	65,379	76,969	91,192	111,476
Other Liabilities, provisions	1,592	2,305	2,792	4,773	6,106
Total	**60,757**	**77,232**	**90,809**	**108,845**	**132,991**
APPLICATION OF FUNDS					
Advances	60,221	77,049	90,552	107,920	131,924
Investments	124	124	136	150	165
Fixed assets	89	93	95	98	101
Other Assets	323	366	586	677	800
Total	**60,757**	**77,632**	**91,370**	**108,845**	**132,991**

Source: Company, HDFC sec Inst Research

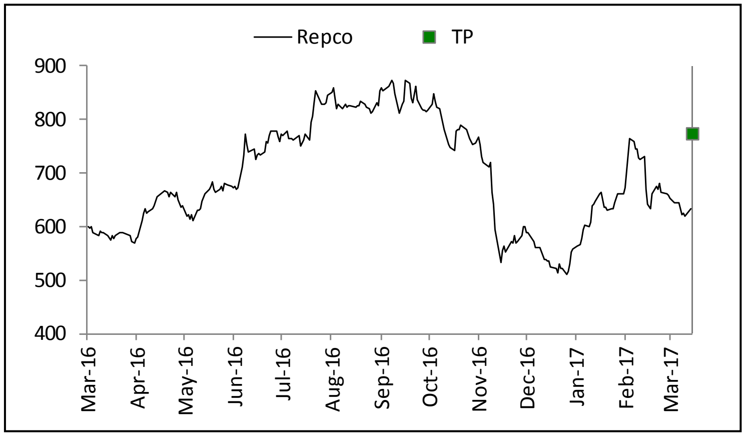
KEY RATIOS

	FY15	FY16	FY17E	FY18E	FY19E
VALUATION RATIOS					
EPS	19.7	24.0	26.5	32.3	43.8
Earnings Growth (%)	11.8	21.9	10.6	21.7	35.5
BVPS	130.2	152.7	176.6	206.0	246.4
Adj. BVPS (100% cover)	125.5	146.8	157.2	198.2	241.3
ROAA (%)	2.28	2.17	1.97	2.02	2.26
ROAE (%)	15.8	17.0	16.1	16.9	19.3
P/E (x)	32.1	26.4	23.9	19.6	14.5
P/ABV (x)	5.05	4.32	4.03	3.20	2.63
P/PPOP (x)	19.1	14.7	12.4	10.6	8.8
Dividend Yield (%)	0.24	0.28	0.35	0.40	0.45
PROFITABILITY					
Yield on AUM (%)	12.52	12.42	12.10	11.85	11.60
Cost of Funds (%)	9.59	9.42	9.20	8.98	8.70
Core Spread (%)	2.93	3.00	2.90	2.87	2.90
NIM (%)	4.44	4.43	4.28	4.24	4.25
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	1.0	0.9	0.9	0.9	0.9
Cost-Income Ratio (Excl Treasury)	21.0	19.3	18.3	18.9	18.8
BALANCE SHEET STRUCTURE RATIOS					
AUM Growth (%)	29.0	27.9	17.5	19.2	22.2
Borrowings Growth (%)	30.8	28.1	17.7	18.5	22.2
Equity/Assets (%)	13.4	12.4	12.2	11.8	11.6
Equity/Loans (%)	13.5	12.4	12.2	11.9	11.7
Total Capital Adequacy Ratio (CAR)	20.3	19.1	18.6	18.1	17.4

	FY15	FY16	FY17E	FY18E	FY19E
ASSET QUALITY					
Gross NPLs (Rs mn)	791	1,009	2,445	2,266	2,309
Net NPLs (Rs mn)	298	368	1,214	487	317
Gross NPLs (%)	1.3	1.3	2.7	2.1	1.8
Net NPLs (%)	0.5	0.5	1.3	0.5	0.2
Coverage Ratio (%)	62.4	63.5	50.3	78.5	86.3
Provision/Avg. Loans (%)	0.4	0.6	0.8	0.6	0.3
ROAA TREE					
Net Interest Income	4.44%	4.43%	4.28%	4.24%	4.25%
Non Interest Income	0.44%	0.43%	0.39%	0.39%	0.39%
Operating Cost	1.01%	0.93%	0.85%	0.87%	0.87%
Provisions	0.26%	0.43%	0.72%	0.57%	0.19%
Tax	1.17%	1.16%	1.05%	1.08%	1.21%
ROAA	2.28%	2.17%	1.97%	2.02%	2.26%
Leverage (x)	7.0	7.8	8.2	8.3	8.5
ROAE	15.8%	17.0 %	16.1%	16.9%	19.3%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
15-Mar-17	634	BUY	775

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:
We, Vishal rampuria, CA, & Darpin Shah, MBA, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
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