

Repco Home Finance Ltd.

Accumulate



Asian Markets Securities Pvt. Ltd.

Asset quality deteriorates sharply; expect some pull back in Q4FY17

Institutional Research

CMP (Rs)	642
Target (Rs)	675

Nifty: 8,725; Sensex: 28,156

Key Stock Data

BSE Code	535322
NSE Code	REPCOHOM
Bloomberg	REPCO IN
Shares O/s mn (FV Rs10)	62.4
Market cap (Rsbn)	40.1
52-week high/low	891/499
3-m daily avg vol.	1,72,207

Rel. Performance

(%)	1m	3m	12m
REPCO	(1.0)	20.5	7.7
NIFTY	3.9	7.6	21.8
SENSEX	3.4	7.0	19.5

Shareholding Pattern

(%)	Jun16	Sep16	Dec16
Promoter	37.1	37.1	37.1
FII	26.5	27.3	24.5
DII	22.5	21.9	23.8
Others	13.8	13.8	14.5

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Repco Home Finance Ltd (RHFL) posted net profit growth of 21% yoy at Rs 464.4mn. RHFL's NII came at Rs 906mn (up 16% yoy) led by loan growth of 21% yoy. Other income for the quarter was muted at 5% yoy at Rs 67mn impacted by slower disbursement during the quarter. NIMs for the quarter declined by 20bps qoq at 4.2%. Spread has also declined by 10bps qoq driven by 10bps sequential fall in yield on advances at 12.1%, whereas cost of funds remained sequentially stable at 9.2%. During the quarter RHFL's loan book grew by 21% yoy at Rs 86.56bn, on YTD basis growth was 12.5% and 2.2% qoq. However, this growth was comparatively lower than Q2FY17 due to demonetization impact. During the quarter disbursement of RHFL declined by 16% yoy and Sanctioned declined by 28% yoy resulting into flat 1% growth in sanctions and disbursement on 9MFY17 basis. Management has also revised its loan book guidance from 25% yoy growth to 20% growth for FY17. However, we believe that delivering additional 7.5% qoq growth in Q4FY17 will be difficult especially when competition is at its peak in housing finance market. We expect ~17% growth in FY17E considering ~7bn (22% down yoy) loan disbursement in Q4FY17. Loan book mix for RHFL broadly remained stable with ~79% Housing loan and 21% LAP. Further, customer segment mix also remained stable with ~60% self employed customers and 40% salaried class customers.

Asset quality of the RHFL deteriorates sharply during the quarter with rise in GNPA/NNPA by 28bps/20bps qoq at 2.65%/1.51% respectively. However, these NPAs are after taking NHB's dispensation for allowing 90days extension for loan below Rs 10mn. After removing this dispensation asset quality has worsened significantly with GNPA/NNPA at 4.2%/3.1% respectively. This rise in NPA is mainly due to impact of demonetization as bulk of its self employed segment had difficulties in paying EMI. Delinquencies in Self employed segment have increased to 3.6% from 3% in Q2FY17 and in LAP segment it has increased to 4.3% from 3.6% in Q2FY17. After removing NHB dispensation delinquencies in Self employed and LAP segment would have been 5.5% and 6.2% respectively. However, management is confident that pulling back asset quality in Q4FY17 as Q4 being strong quarter for recovery. Management guided that by end of FY17 GNPA would be ~1.5% after taking NHB dispensation and without NHB dispensation it would be higher. We believe that GNPA would be ~2% by FY17E as to pull back to 1.5% level it need humongous recovery effort worth Rs 2bn which looks difficult considering average Q4 recovery of Rs 0.7bn to 1bn. Provisioning coverage ratio for the quarter declined from 45.3% in Q2FY17 to 43.6% in Q3FY17. RHFL's cost to income ratio remained stable at 16.4% after declining from last 4 quarters mainly on account of flat other expenses growth. RoA/RoE of the company has increased on sequential basis at 2.2%/18.7% respectively as company has maintain its profitability by allowing its PCR to go down as it is well provided on individual buckets.

At CMP, the stock trades at 3.4x its FY18E ABV and 2.8x FY19E ABV. We maintain our positive stance on the company with Accumulate rating and TP of Rs 675 based on 3x FY19E ABVPS.

Margin declined by 20bps driven by fall in yield on advances

RHFL's margin declined sequentially by 20bps at 4.2% along with sequential drop in spread by 10bps. This is mainly on account of sequential fall in yield on advances by 10bps at 12.1%, whereas cost of funds for RHFL remained sequentially stable at 9.2%. However, management guided that going ahead company plans to maintain its spread of 3% and the benefit of lower cost of funds will be passed on to customers by maintaining 3% spread.

During the quarter RHFL has increased its share of NCD/CP borrowing from 13% in Q2 to 14% in Q3FY17 which has provided some cushion to cost of funds. RHFL's current incremental borrowing is sub 9% and considering its higher reliance on bank loans (63% of total borrowings) coupled with entire bank book linked to MCLR will allow RHFL to reprise its existing bank borrowing at current MCLR rate (~8%-8.2%). We believe that this incremental advantage of lower cost of funding will provide significant room for RHFL to cut down its lending rate to ~9% and be competitive in market. **We believe that going ahead company will maintain its spread of 3% and margin at 4.2% to 4.3%.**

Outlook and Valuation: We believe that current asset quality concerns will likely to overhang for next couple of quarters, we expect rising NPLs coupled with slower disbursement growth may impact RHFL's. However, we believe that considering RHFL's niche business model, high profitability with ability to improve return ratios, high capitalization, consistent execution, maintaining spread and experience of managing asset quality risk will provide cushion to company in delivering robust operating performance and continue to fetch premium valuation. At CMP, stock trades at 3.4x its FY18E ABV & 2.8x FY19E ABV. **We have revised our rating from BUY to Accumulate considering current asset quality risk overhang coupled with slower loan growth which will drag earnings in FY17 and partly in FY18 as well. We value the company 3x on FY19E adj. BVPS to arrive target price of Rs 675 per share.**

Exhibit 1: Key Financials (Standalone)

Y/E Mar (Rsmn)	FY16	FY17E	FY18E	FY19E
NII	3,055	3,524	4,092	5,200
yoy (%)	28.2	15.3	16.1	27.1
Other Income	281	323	381	457
yoy (%)	22.3	15.0	18.0	20.0
Operating Profit	2,693	3,175	3,715	4,749
yoy (%)	30.4	17.9	17.0	27.8
PAT	1,501	1,606	1,959	2,604
yoy (%)	21.9	7.0	22.0	32.9
Net Worth	9,548	10,966	12,699	15,055

Exhibit 2: Key Indicators

Y/E Mar	FY16	FY17E	FY18E	FY19E
Adj. BV (Rs)	146.9	159.0	186.8	225.5
EPS (Rs)	24.0	25.7	31.3	41.7
Gross NPA (%)	1.3	2.0	1.6	1.3
Net NPA (%)	0.5	1.1	0.9	0.7
NIM Calc. (%)	4.4	4.2	4.1	4.3
P/ABV (x)	4.4	4.0	3.4	2.8
PER (x)	26.7	24.9	20.4	15.4
Avg. RoA (%)	2.2	1.9	1.9	2.1
Avg. RoE (%)	17.0	15.7	16.6	18.8

Source: Company, AMSEC Research

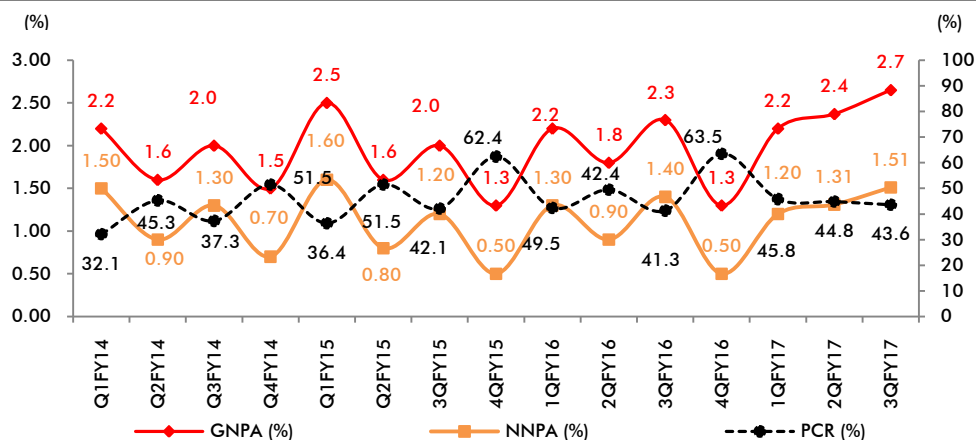
Asset quality continues to deteriorate; GNPA at 2.65% multi quarter high

RHFL asset quality during the quarter further deteriorated taking its GNPA/NNPA ratio to 2.65%/1.51% respectively (up by 28bps/20bps qoq respectively). Its GNPA/NNPA has increased by 14%/17% qoq with further rise in self employed segment / LAP segment NPA from 3.1%/3.7% in Q2FY17 to 3.6%/4.3% in Q3FY17. However, these NPAs are after taking NHB's dispensation (worth Rs 1.37bn) for allowing 90days extension for loan below Rs 10mn. After removing this dispensation asset quality has worsened significantly with GNPA/NNPA at 4.2%/3.1% respectively. This rise in NPA is mainly due to impact of demonetization as bulk of its self employed segment had difficulties in paying EMI. Delinquencies in Self employed segment have increased to 3.6% from 3% in Q2FY17 and in LAP segment it has increased to 4.3% from 3.6% in Q2FY17. After removing NHB dispensation delinquencies in Self employed and LAP segment would have been 5.5% and 6.2% respectively. Further, without NHB dispensation delinquencies in Salaried and Housing loan segment have also almost doubled to 2.4%/3.7% respectively from 1.3%/2% in Q2FY17.

However, management is confident of pulling back asset quality in Q4FY17 as Q4 being always strong quarter for recovery for entire industry. **Management guided that by end of FY17 GNPA would be ~1.5% after taking NHB dispensation and without NHB dispensation it would be higher.** We believe that GNPA would be ~2% by FY17E as to pull back to 1.5% level it need humongous recovery effort worth Rs 2bn in Q4 which looks difficult considering average Q4 recovery of Rs 0.7bn to 1bn. Provisioning coverage ratio for the quarter declined from 45.3% in Q2FY17 to 43.6% in Q3FY17. However management plans to take its PCR to 60% level. We believe that PCR of 60% would be difficult as it needs either huge recovery or high amount of provisioning.

We believe that RHFL would continue to see asset quality pressure in Q4FY17 as well; however there will be some pullback. The major concern will be slippages coming out of RHFL's NHB dispensation book of Rs 1.37bn, these loans would be completing their 90 days in March and even 40%-50% slips into NPA it will put further pressure on company's asset quality in Q4 as well as Q1FY18.

Exhibit 3: Asset quality quarterly trend



Source: Company, AMSEC Research

Exhibit 4: After taking NHB Dispensation

(%)	Q3FY17	Q2FY17	Q3FY16	yoy	qoq
Salaried	1.3	1.3	1.3	-	-
Non-Salaried	3.6	3.1	3.0	60bps	50bps
Housing	2.2	2.0	2.0	20bps	20bps
LAP	4.3	3.7	3.6	70bps	60bps
Overall	2.6	2.4	2.3	30bps	20bps

Source: Company, AMSEC Research

Exhibit 5: Without taking NHB Dispensation

(%)	Q3FY17	Q2FY17	Q3FY16	yoy	qoq
Salaried	2.4	1.3	1.3	110bps	110bps
Non-Salaried	5.5	3.1	3.0	250bps	240bps
Housing	3.7	2.0	2.0	170bps	170bps
LAP	6.2	3.7	3.6	260bps	250bps
Overall	4.2	2.4	2.3	190bps	180bps

Loan book growth impacted by demonetization with 21% yoy growth and 12.5% YTD growth led by sharp decline in sanctioned and disbursements

RHFL's loan book during the quarter grew by 21% yoy and 2.2% qoq led by decline in sanctioned and disbursement by 16%/28% yoy and 57%/43% qoq respectively. However, on 9MFY17 basis sanctions and disbursement remained flat at 1% yoy growth.

Management has also revised its loan book guidance from 25% yoy growth to 20% growth for FY17. However, we believe that delivering additional 7.5% qoq growth in Q4FY17 will be difficult especially when competition is at its peak in housing finance market. **We expect ~17% growth in FY17E considering ~7bn (22% down yoy) loan disbursement in Q4FY17.**

Further, on Tamilnadu issue where new registration of property without approved layout has been banned, management guided that the hearing of the case is on 27th Feb 2017. If this issue is getting clarified then RHFL can release its Rs 2bn blocked sanctioned pipeline which will help company to achieve its revised loan book target.

We believe that there would be some near term challenges to loan book growth as 43% of RHFL loan book is towards self construction houses and with new registration is banned in Tamilnadu and impact of demonetization would take toll on RHFL loan book growth. However, boost for affordable housing loan segment coupled with budgetary announcement to address supply side constraints will continue to drive demand. **We expect loan book growth of ~17% in FY17 and 21% in FY18E.**

Con-call Highlights

- Management revised its loan book guidance from 25% to 20% for FY17E
- Management maintain FY18 loan guidance between 20% to 25%
- Management reiterate that going ahead loan book mix will remain same like 60% self employed customers and 40% salaried class customers. Home loan and LAP mix in loan book will also remain same at 80:20.
- RHFL will continue to maintain spread of 3% and margin of 4%+. Hence any change in yield or cost of fund will be function of spread.
- In terms of profile of salaried segment, mostly are employed with private sector companies
- Management plans to take PCR at 60% level by FY17
- Company has received Rs 12mn dividend income (Rs 7.9mn FY15) from its subsidiary Repco Micro Finance
- Repco Micro finance has GNPA of less than 1% at 0.89% and NNPA Nil and it has only presence in Tamilnadu
- RHFL has 11.57% yield in Housing loan and 14.78% in LAP loans against 11.64%/14.88% respectively in Q2FY17
- Management guided that overall cash collection has come down post demonetization
- RHFL has prepayment rate of 8% to 10% in Housing and LAP book put together
- Average duration of bank borrowing is 10 years
- In Housing loan disbursement were Rs 3.95bn and LAP disbursement were Rs 1.07bn in Q3FY17 and sanctioned of Rs 4.99bn and 1.30bn respectively.
- Benefit of bank cutting MCLR rate will be reflected in Q4 as well
- Mid Jan onwards ground level activities has improved
- GNPA region wise after taking RBI forbearance into account ; AP - 3%, Telangana - 2.5%, Gujarat - 1.2%, Karnataka - 3.3%, Maharashtra - 0.6%, Tamil Nadu - 2.9% and Tamil Nadu - 4.2% (without RBI forbearance)
- Company has bring down its average ticket size from Rs 1.6mn to Rs 1.4mn in Housing loan and from Rs 2.2mn to 1.54mn in LAP segment
- Company does 10% of incremental disbursement in affordable housing segment
- Average cost of funding for H1FY17 is 9.2% and incremental borrowing is at 9%.
- RHFL maintains LTV of 70%-75% on housing loans, LTV on LAP is ~50-52% and average LTV on loan book is 62%.
- RHFL originates ~60% loans from loan camp through branches and ~38% from branch walk-ins and remaining 2% from DSA especially in newer territory like Gujarat and Maharashtra.
- In Self employed customer's profile of the customers are mostly retail traders.
- RHFL has ~26% of loans for under construction properties.

Exhibit 6: 3QFY17 performance

P & L (Rs mn)	Q3FY17	yoy %	qoq %	9MFY16	9MFY17	yoy %	Q2FY17	Q1FY17	Q4FY16	Q3FY16	Q2FY16
Operating Income	2588.5	18.1	3.6	6,209.5	7,477.4	20.4	2499.7	2,389.2	2,311.8	2,190.9	2,083.7
Interest exp	1681.7	19.2	5.3	4,026.7	4,828.2	19.9	1597.0	1,549.5	1,459.9	1,411.4	1,344.2
NII	906.8	16.3	0.5	2,182.8	2,649.2	21.4	902.7	839.7	851.9	779.5	739.5
Other Income	67.3	5.7	(30.2)	210.0	243.6	16.0	96.4	79.9	91.1	63.7	80.2
Total Income	974.1	15.5	(2.5)	2,392.8	2,892.8	20.9	999.1	919.6	943.0	843.2	819.7
Opex	163.4	1.9	0.1	489.8	475.4	(2.9)	163.3	148.7	153.2	160.4	175.3
Employee Expenses	104.4	9.2	4.6	310.8	302.1	(2.8)	99.8	97.9	87.9	95.6	114.1
Depreciation	7.6	(15.6)	(11.6)	29.2	24.3	(16.8)	8.6	8.1	12.3	9.0	9.8
Other Expenses	51.4	(7.9)	(6.4)	149.8	149.0	(0.5)	54.9	42.7	53.0	55.8	51.4
PPoP	810.7	18.7	(3.0)	1,903.0	2,417.4	27.0	835.8	770.9	789.8	682.8	644.4
Provisions & Write Offs	96.3	4.3	(24.2)	252.2	402.6	59.6	127.0	179.3	139.8	92.3	47.1
PBT	714.4	21.0	0.8	1,650.8	2,014.8	22.0	708.8	591.6	650.0	590.5	597.3
Tax	250	26.3	(1.3)	565.5	699.5	23.7	253.2	196.3	187.0	198.0	206.8
PAT	464.4	20.5	1.9	1,078.3	1,315.3	22.0	455.6	395.3	423.0	385.5	390.5
PAT Margin (%)	47.7	196bps	207bps	45.1	45.5	40bps	45.6	43.0	44.9	45.7	47.6
Cost to Income (%)	16.4	(410bps)	6bps	20.5	16.4	(410bps)	16.3	16.2	19.3	20.5	21.3
Loans Spreads (%)	2.9	(9bps)	(10bps)	3.0	3.0	-	3.0	2.9	3.0	3.0	3.1
Net Interest Margin (%)	4.2	(20bps)	(20bps)	4.4	4.3	(10bps)	4.4	4.3	4.6	4.4	4.5
YoA (%)	12.1	(48bps)	(10bps)	12.6	12.1	(48bps)	12.2	12.2	12.2	12.6	12.6
CoF (%)	9.2	(38bps)	-	9.6	9.2	(38bps)	9.2	9.3	9.2	9.6	9.5
Return on Assets (%)	2.2	(10bps)	7bps	2.3	2.2	(10bps)	2.1	2.30	1.9	2.3	2.2
Return on Equity (%)	18.7	200bps	118bps	16.7	18.1	140bps	17.5	18.10	15.7	16.7	16.1
CAR (%)	19.9	(410bps)	10bps	24.00	19.9	(410.00)	19.8	20.05	20.7	24.0	21.0
BVPS (Rs.)	165.6	11.7	4.3	148.3	165.6	11.7	158.7	152	148	148	142
Branches	153	1.3	-	151.0	153.0	1.3	153	151	150	151.0	146.0
Loan Book (Rs mn)	86561	21.0	2.2	71,544	86,561	21.0	84688	79593	76912	71544	86561
Disbursed (Rs mn)	5018	(16.0)	(42.7)	19,538	19,779	1.2	8764	5997	8975	5974	5018
Sanctioned (Rs mn)	4538	(27.9)	(56.6)	21,486	21,782	1.4	10461	6783	9342	6290	4538
Loan book profile	187.3	(38.7)	(63.2)	305.6	187.3	(38.7)	509.5	268.1	536.8	305.6	504.6
Salaried (%)	40.0	(220bps)	(30bps)	42.2	40.0	(220bps)	40.3	40.90	41.20	42.2	42.5
Non-salaried (%)	60.0	220bps	30bps	57.8	60.0	220bps	59.7	59.10	58.80	57.8	57.5
Home Loans (%)	79.4	(160bps)	10bps	81.0	79.4	(160bps)	79.3	79.90	80.20	81.0	80.8
LAP (%)	20.6	160bps	(10bps)	19.0	20.6	160bps	20.7	20.10	19.80	19.0	19.2
Asset quality											
GNPA (mn)	2290.8	39.8	13.9	1,639.00	2,290.8	39.8	2011.0	1769.5	1008.7	1,639.0	1,236.0
NNPA (mn)	1292.0	34.3	16.5	962.00	1,292.0	34.3	1109.4	959.0	368	962.0	624.0
GNPA (%)	2.65	35bps	28bps	2.30	2.6	35bps	2.37	2.20	1.31	2.30	1.80
NNPA (%)	1.51	15bps	20bps	1.36	1.5	15bps	1.31	1.20	0.48	1.36	0.90
NPA - Home Loan (%)	2.2	30bps	20bps	1.90	2.2	30bps	2.0	1.9	1.2	1.9	1.7
NPA -LAP (%)	4.3	70bps	60bps	3.60	4.3	70bps	3.7	3.7	2.0	3.6	2.4
NPA -Salaried (%)	1.3	-	-	1.30	1.3	-	1.3	1.2	0.7	1.3	1.1
NPA -Non Salaried (%)	3.6	60bps	50bps	3.00	3.6	60bps	3.1	2.9	1.8	3.0	2.3
Provision Coverage (%)	43.6	300bps	(123bps)	40.60	43.6	300bps	44.8	45.8	63.5	40.6	49.5
Funding Mix (%)											
Banks	62.7	(33bps)	66bps	63.00	62.7	(33bps)	62.0	63.0	72.0	63.0	68.0
NHB	16.7	69bps	(141bps)	16.00	16.7	69bps	18.1	20.0	14.0	16.0	17.0
Repco Bank	6.6	(136bps)	(23bps)	8.00	6.6	(136bps)	6.9	7.0	8.0	8.0	8.0
CP/NCD	14.0	101bps	98bps	13.00	14.0	101bps	13.0	10.0	6.0	13.0	7.0
Exposure (%)											
AP &Telangana	10.9	(50bps)	(10bps)	11.40	10.9	(50bps)	11.0	11.0	11.2	11.4	11.7
Tamilnadu	62.4	(10bps)	(20bps)	62.50	62.4	(10bps)	62.6	62.6	62.7	62.5	62.5
Karnataka	12.3	(20bps)	(20bps)	12.50	12.3	(20bps)	12.4	12.4	12.3	12.5	12.5
Kerala	3.8	10bps	-	3.70	3.8	10bps	3.8	3.8	3.8	3.7	3.8
Maharashtra	6.1	50bps	20bps	5.60	6.1	50bps	5.9	5.8	5.7	5.6	5.4
Gujarat	2.2	20bps	10bps	2.00	2.2	20bps	2.1	2.1	2.0	2.0	1.9
Others	2.4	20bps	10bps	2.20	2.4	20bps	2.3	2.3	2.3	2.2	2.3

Source: Company, AMSEC Research

Exhibit 7: Loan Book trend

Quarter	Q3FY14	Q4FY14	Q1FY15	Q2FY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Loans (Rsbn)	43.2	46.6	48.9	52.4	55.0	60.1	63.4	68.5	71.5	76.9	79.6	84.7	86.6
growth yoy %	32.1	31.5	30.6	29.8	27.3	29.0	29.7	30.8	30.1	27.9	25.5	23.7	21.0
growth qoq %	7.0	7.9	4.9	7.1	5.0	9.3	5.5	8.0	4.5	7.5	3.5	6.4	2.2
YTD %	21.9	31.5	4.9	12.4	18.0	29.0	5.5	13.9	19.0	27.9	3.5	10.1	12.5
Sanctioned (Rsbn)	4.4	5.4	4.8	5.6	5.2	8.3	6.6	8.6	6.3	9.3	6.8	10.5	4.5
growth yoy %	51.0	26.3	34.6	15.0	18.8	55.2	37.5	53.5	20.0	11.9	2.5	21.9	-27.9
growth qoq %	-9.3	21.8	-10.5	16.2	-6.2	59.2	-20.7	29.7	-26.7	48.5	-27.4	54.2	-56.6
YTD %	3.6	26.3	-10.5	4.0	-2.5	55.2	-20.7	2.8	-24.6	11.9	-27.4	12.0	-51.4
Disbursed (Rsbn)	4.4	5.1	4.1	5.4	4.7	7.5	5.8	7.8	6.0	9.0	6.0	8.8	5.0
growth yoy %	57.4	31.4	24.2	27.1	7.1	46.6	39.9	43.4	25.8	19.6	3.4	12.9	-16.0
growth qoq %	4.2	15.4	-19.0	30.5	-12.3	58.0	-22.7	33.8	-23.0	50.2	-33.2	46.1	-42.7
YTD %	13.8	31.4	-19.0	5.7	-7.2	46.6	-22.7	3.4	-20.4	19.6	-33.2	46.1	-42.7

Source: Company, AMSEC Research

Exhibit 8: Region wise exposure (%)

Region wise	Q3FY14	Q4FY14	Q1FY15	Q2FY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
AP &Telangana	12.9	13.9	12.6	12.3	12.2	12	12	11.7	11.4	11.2	11.0	11.0	10.9
Tamilnadu	63.7	63.3	64.1	64	63.5	62.5	62.5	62.5	62.5	62.7	62.6	62.6	62.4
Karnataka	11.9	12	11.8	11.9	12.0	12.4	12.4	12.5	12.5	12.3	12.4	12.4	12.3
Kerala	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.8	3.7	3.8	3.8	3.8	3.8
Maharashtra	4.5	4	4.9	5.1	5.2	5.4	5.4	5.4	5.6	5.7	5.8	5.9	6.1
Gujarat	0	0.3	0.8	1	1.2	1.8	1.8	1.9	2	2	2.1	2.1	2.2
Others	3.3	2.8	2.2	2	2.1	2.2	2.2	2.3	2.2	2.3	2.3	2.3	2.4

Source: Company, AMSEC Research

Exhibit 9: Quarterly asset quality trend

Asset Quality	Q3FY14	Q4FY14	Q1FY15	Q2FY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
GNPA(Rsmn)	877	686	1218	862	1094	791	1406	1236	1639	1009	1770	2011	2291
growth yoy %	-8.9	30.7	46.4	28.2	24.7	15.3	15.4	43.4	49.8	27.5	25.9	62.7	39.8
growth qoq %	30.5	-21.8	77.6	-29.2	26.9	-27.7	77.7	-12.1	32.6	-38.5	75.4	13.6	13.9
NNPA (Rs mn)	549	332	774	418	634	298	810	624	962	368	959	1109	1292
growth yoy %	-27.1	-4.6	36.0	13.6	15.5	-10.2	4.7	49.3	51.7	23.5	18.4	77.8	34.3
growth qoq %	49.2	-39.5	133.1	-46.0	51.7	-53.0	171.8	-23.0	54.2	-61.7	160.6	15.7	16.5

Source: Company, AMSEC Research

Financial Performance Improvement trend

Exhibit 10: Margin and margin drivers movement

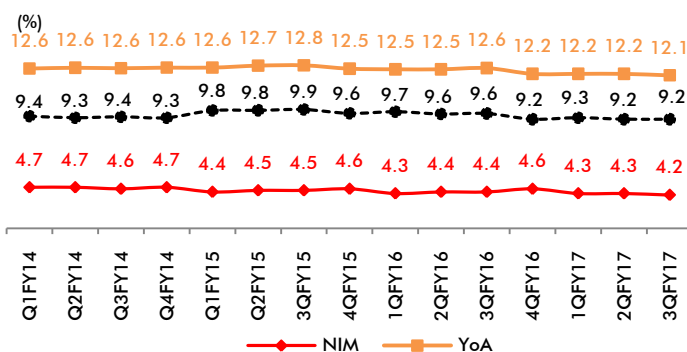


Exhibit 11: Funding Mix trend

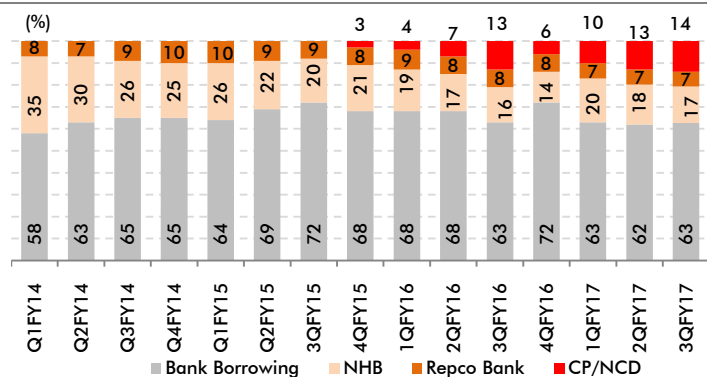


Exhibit 12: Loan book growth trend

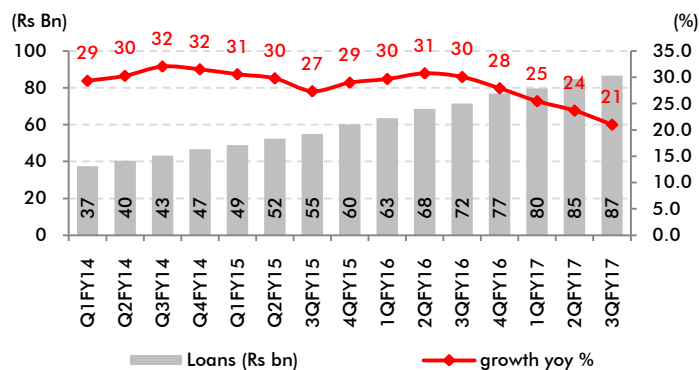
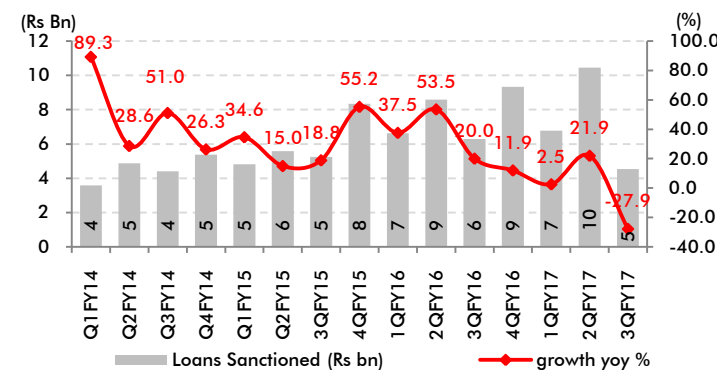


Exhibit 13: Loan Sanctioned growth



Source: Company, AMSEC Research

Exhibit 14: Loan Disbursement growth trend

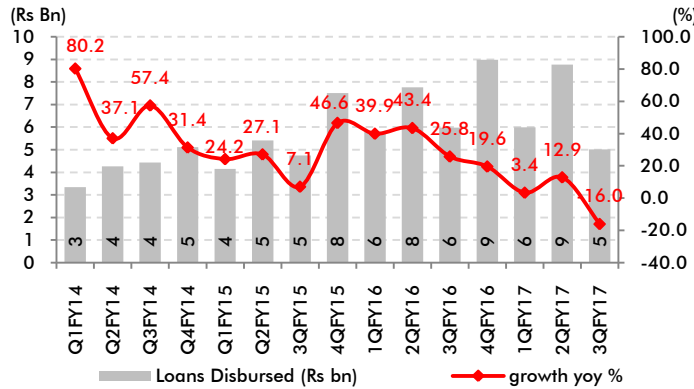


Exhibit 15: Borrowing trend

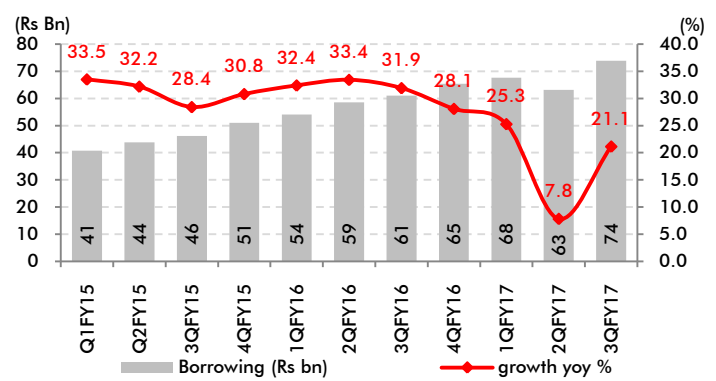


Exhibit 16: Loan Book Mix share

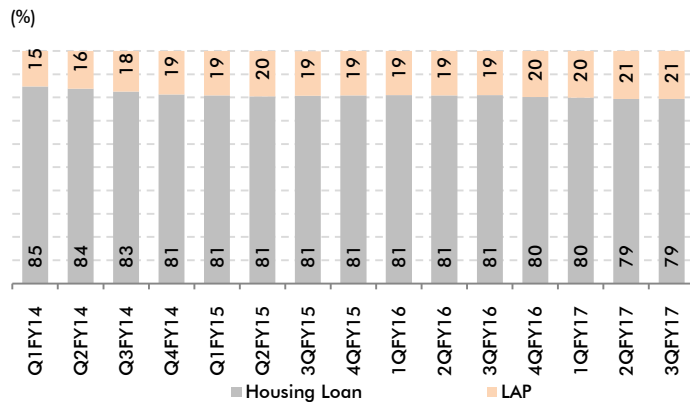


Exhibit 17: Loan Book mix of customer segment

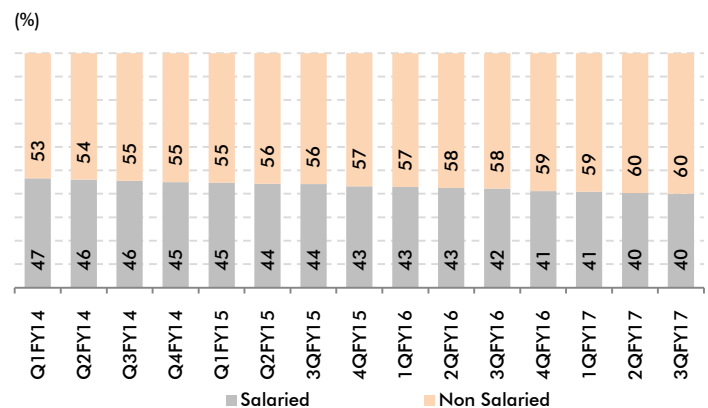


Exhibit 18: Net profit growth trend

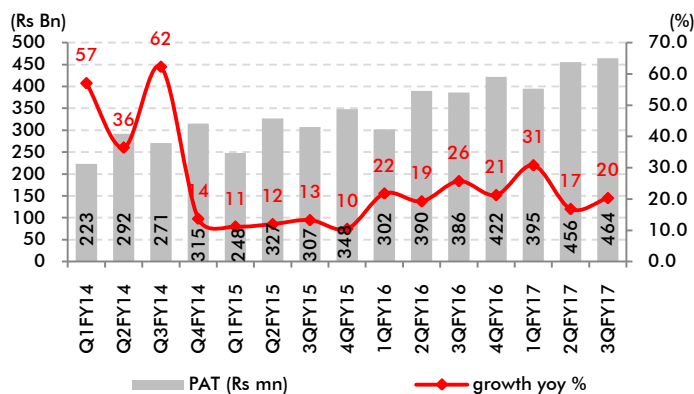


Exhibit 19: NII growth trend

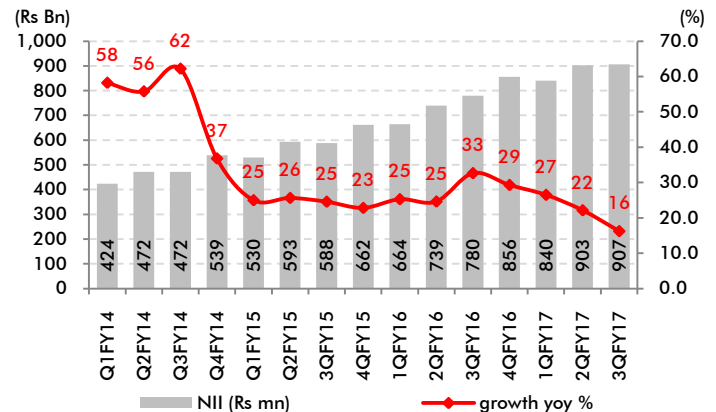


Exhibit 20: RoA and RoE trend

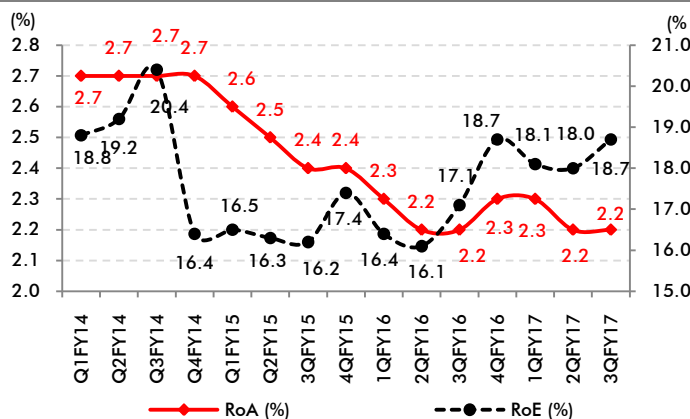
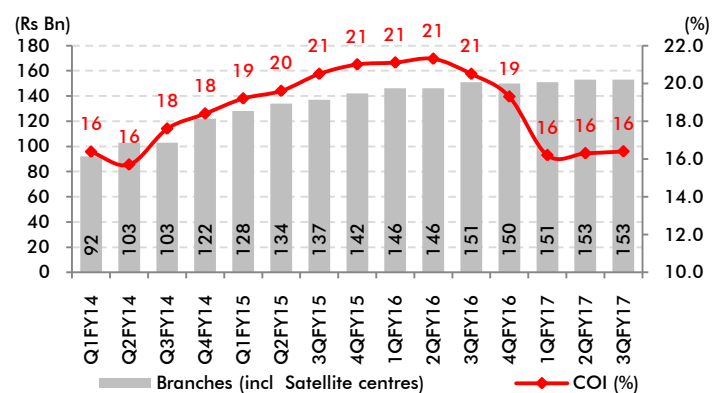


Exhibit 21: Cost to income and branch trend



Source: Company, AMSEC Research

Financials

(Rs mn)

Profit and Loss Statement

Y/E March	FY16	FY17E	FY18E	FY19E
Interest Earned	8,538	9,703	11,083	14,036
Interest expended	5,483	6,180	6,992	8,837
Net interest income	3,055	3,524	4,092	5,200
Non-interest income	281	323	381	457
Fee Income	269	310	366	439
Others	12	13	15	18
Net total income	3,336	3,846	4,472	5,656
Operating expenses	643	671	757	908
Employee expense	409	420	470	573
Other expense	234	252	287	334
Pre- provisioning profit (PPP)	2,693	3,175	3,715	4,749
Provision & Contingency	392	742	747	803
PBT	2,301	2,433	2,968	3,946
Tax	800	827	1,009	1,341
PAT	1,501	1,606	1,959	2,604

Balance Sheet

Y/E March	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	625	625	625	625
Reserves	8,923	10,341	12,074	14,430
Networth	9,548	10,966	12,699	15,055
Borrowings	50,252	59,403	72,472	90,590
Other Liabilities & Provisions	17,832	20,618	25,563	31,197
Total Liabilities	77,632	90,987	1,10,734	1,36,842
Assets				
Current assets	5,385	6,557	7,936	9,637
Investments	124	130	143	158
Advances	72,030	84,193	1,02,538	1,26,921
Fixed Assets	93	107	117	127
Total Assets	77,632	90,987	1,10,734	1,36,842

Growth matrix P&L (%)

Y/E March	FY16	FY17E	FY18E	FY19E
Interest Earned	27.5	13.6	14.2	26.6
Interest expended	27.1	12.7	13.1	26.4
Net interest income	28.2	15.3	16.1	27.1
Non-interest income	22.3	15.0	18.0	20.0
Fee Income	21.6	15.2	18.0	20.0
Others	41.4	10.7	18.0	20.0
Net total income	27.7	15.3	16.3	26.5
Operating expenses	17.5	4.4	12.8	19.9
Employee expense	22.2	2.5	12.0	22.0
Other expense	10.1	7.6	14.1	16.5
Pre- provisioning profit (PPP)	30.4	17.9	17.0	27.8
Provision & Contingency	92.7	89.3	0.7	7.5
PBT	23.6	5.7	22.0	32.9
Tax	26.8	3.4	22.0	32.9
PAT	21.9	7.0	22.0	32.9

Growth matrix Balance Sheet (%)

Y/E March	FY16	FY17E	FY18E	FY19E
Net-worth	17.6	14.8	15.8	18.6
Borrowings	29.5	18.2	22.0	25.0
Advances	28.0	16.9	21.8	23.8

Ratios

Capital Adequacy Ratios (%)	FY16	FY17E	FY18E	FY19E
CRAR (%)	20.7	19.7	18.7	17.9
Tier I (%)	20.7	19.7	18.7	17.9
RWA / Total Assets (%)	40%	44%	46%	49%

Asset quality (%)	FY16	FY17E	FY18E	FY19E
GNPA (%)	1.3	2.0	1.6	1.3
NNPA (%)	0.5	1.1	0.9	0.7
Slippage Ratio (%)	0.4	1.2	0.6	0.5
PCR (ex tech write offs) (%)	63.5	41.9	42.2	45.5
Credit Costs (%)	0.6	1.0	0.8	0.7
Provisioning / avg assets (%)	0.6	0.9	0.7	0.6

Other operating indicators (%)	FY16	FY17E	FY18E	FY19E
Yield on advances	12.4	11.6	11.1	11.5
Yield on int earning assets	12.4	11.6	11.1	11.5
Cost of Funds	9.4	8.7	8.2	8.3
NIM	4.4	4.2	4.1	4.3
Spread	3.0	3.0	3.0	3.2
Cost to income (%)	19.3	17.4	16.9	16.0
Interest income/total income	91.6	91.6	91.5	91.9
other income/total income	8.4	8.4	8.5	8.1
CAR (%)	20.7	19.7	18.7	17.9
Tier I (%)	20.7	19.7	18.7	17.9
Debt Equity Ratio (X)	5.3	5.4	5.7	6.0
Tax Rate (%)	34.8	34.0	34.0	34.0

Valuation Table

Net profit (Rs mn)	1,501	1,606	1,959.1	2,604.1
Shares in issue (bn)	62.5	62.5	62.5	62.5
EPS (Rs)	24.0	25.7	31.3	41.7
EPS growth (%)	21.7	7.0	22.0	32.9
PE (x)	26.7	24.9	20.4	15.4
P/PPP (x)	14.9	12.6	10.8	8.4
Book value (Rs/share)	152.8	175.5	203.2	240.9
P/BV (x)	4.2	3.6	3.1	2.7
Adj book value (Rs/share)	146.9	159.0	186.8	225.5
P/ABV (x)	4.4	4.0	3.4	2.8
ROAA (%)	2.2	1.9	1.9	2.1
ROE (%)	17.0	15.7	16.6	18.8
Dividend Yield (%)	0.3	0.4	0.5	0.5
DPS (Rs)	1.8	2.5	3.0	3.3

Du pont Decomposition (%)

Yield on Assets	12.3	11.5	11.0	11.3
Less: Cost of Assets	7.9	7.3	6.9	7.1
Net Interest Income	4.4	4.2	4.1	4.2
Other Income	0.4	0.4	0.4	0.4
Less: Operating Exp	0.9	0.8	0.8	0.7
Less: Provisions	0.6	0.9	0.7	0.6
Less: Tax	1.2	1.0	1.0	1.1
RoAA	2.2	1.9	1.9	2.1
Leverage	7.8	8.2	8.5	8.9
RoE	17.0	15.7	16.6	18.8

Source: Company, AMSEC Research

Recommendation rationale

Sector rating

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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