09 April 2015

India Financials

Retail tailwinds

Sensex: 28885

Nifty: 8778

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Sujan Hajra
+9122 6626 6720
sujanhajra@rathi.com

Moumita Paul Samanta
+9122 6626 6743
moumitapaul@rathi.com

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Executive summary

The drop in lending to the corporate sector (which has halved in FY15 from FY14) because of the capex slowdown has compelled banks to focus on other lending avenues, primarily on the retail and SME segments. We believe that India, given its favourable demographics, has huge potential for retail lending. We thus expect the share of retail loans in lending to climb from 19% in FY14 to 24% over the next four years. DCB Bank and Federal Bank are our top picks among private banks and Vijaya Bank among public sector ones, given their operations are in retail-rich areas.

Recent market dynamics. The past five quarters, in our view, saw four key trends emerge: (1) the capex pipeline declining significantly in the past two years due to the drawdown from existing sanctions and new proposals drying up, (2) a slowdown in lending by banks, especially to the corporate sector because of lower capex investment and high stressed loans, (3) retail loan growth showing signs of a comeback and (4) most banks becoming innovative and vigorous in various retail loan products.

Retail – A gradual and steady rise. Given the slowdown in lending to the corporate sector, we expect banks to focus on retail lending. A comparison of India's retail penetration levels with those of developed and emerging markets, when juxtaposed with demographic trends and income levels, throws up significant long-term potential. We note a strong correlation in rising GDP, urbanisation and stock market returns with mortgage and vehicle penetration. We estimate a 15-18% CAGR in mortgages and vehicle loans over FY15—FY18, driven by rising per-capita income, urbanisation, favourable demographics and declining household sizes.

Top picks: DCB, Federal, Vijaya. We like DCB Bank, Federal Bank and Vijaya Bank, given their higher focus on retail advances. Retail loans comprise 46%, 32% and 22%, respectively, of these banks' advances. The banks are also located in the best geographical areas to capitalise on retail growth. While valuations of a few private banks are close to/or above median multiples currently, we expect a further re-rating toward past peaks due to strong growth and profitability.

Key risks. There can be downside risks to our optimistic growth expectations since matters at the ground level have yet to improve. With property prices in key markets at close to their peaks, purchases may be postponed, affecting property demand. Although doubtful, reversal of the interest-rate cycle can impact housing, car and CV demand. For public sector banks, more-than-expected slippage from re-structured assets could lead to a reduction in our estimates for these banks.

Nikhil Rungta
+9122 6626 6744
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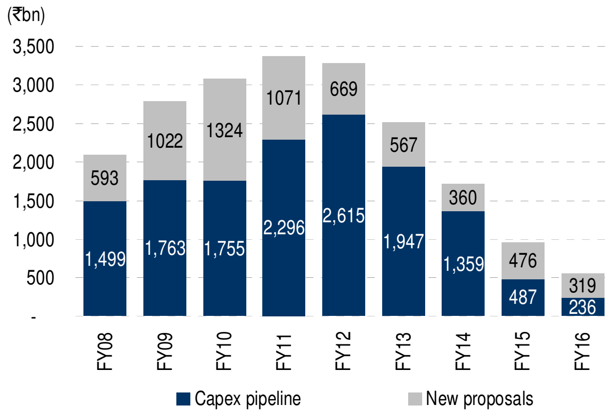
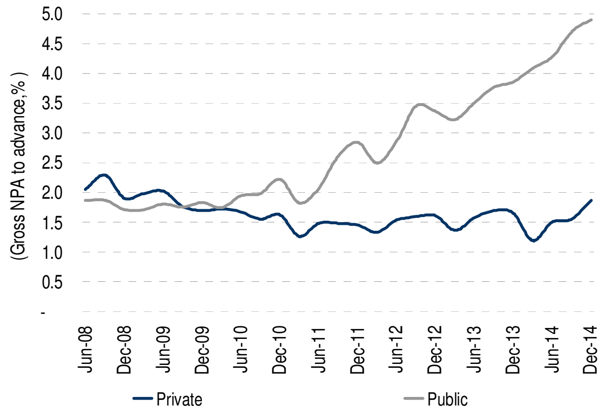
The report in charts

Fig 01 – Capex opportunities drying up . . .



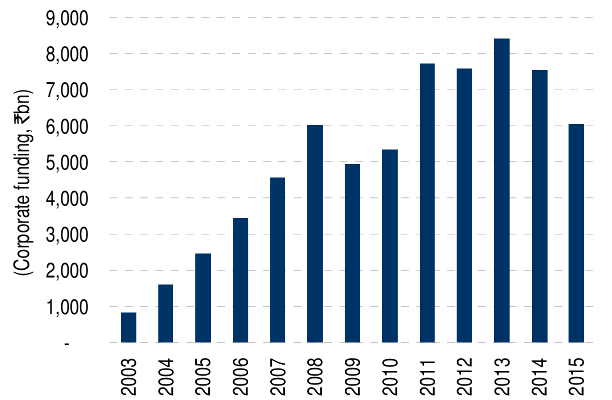
Source: RBI, Anand Rathi Research

Fig 02 – . . . along with high NPA in the corporate sector . . .



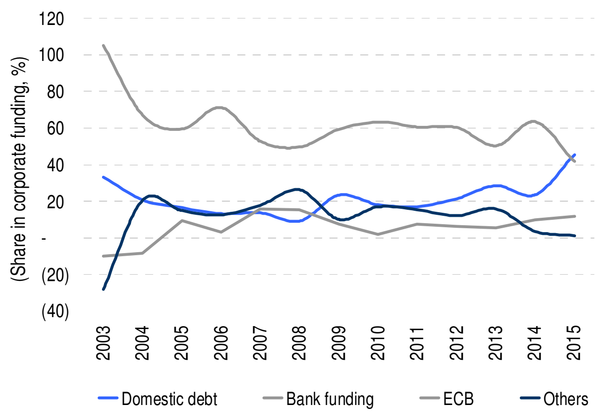
Source: RBI, Anand Rathi Research

Fig 03 – . . . leading to low corporate funding



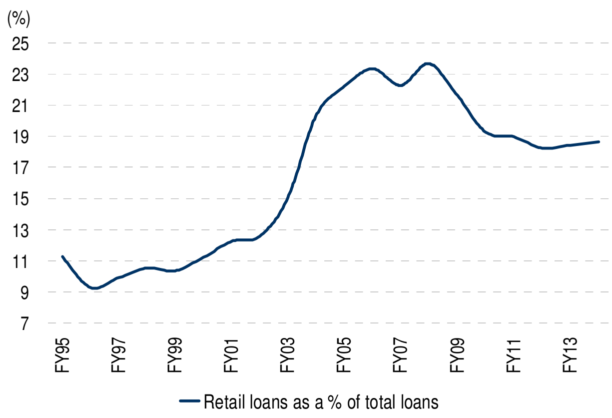
Source: RBI, Anand Rathi Research

Fig 04 – Hence, share of bank funding declining



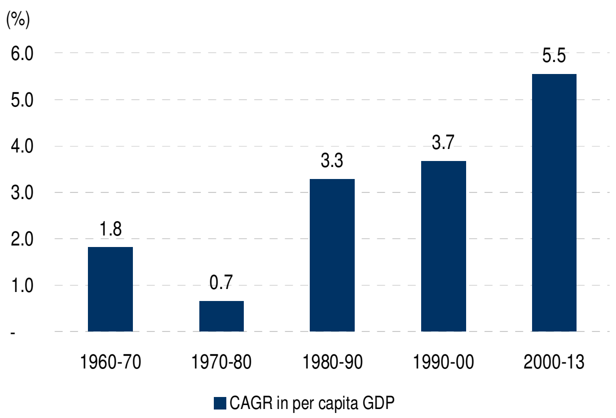
Source: RBI, Anand Rathi Research

Fig 05 – Banks have started focusing on retail . . .



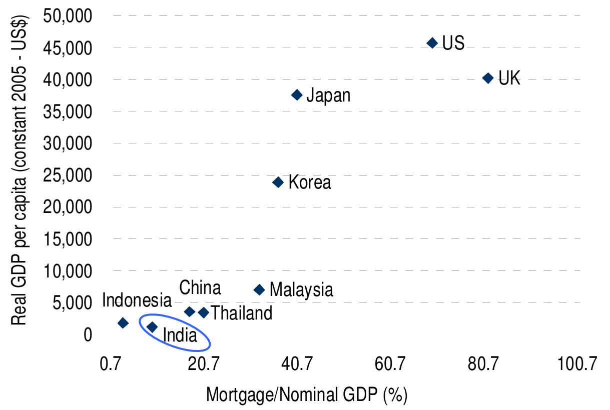
Source: RBI, Anand Rathi Research

Fig 06 – . . . which would also be propelled by rising income



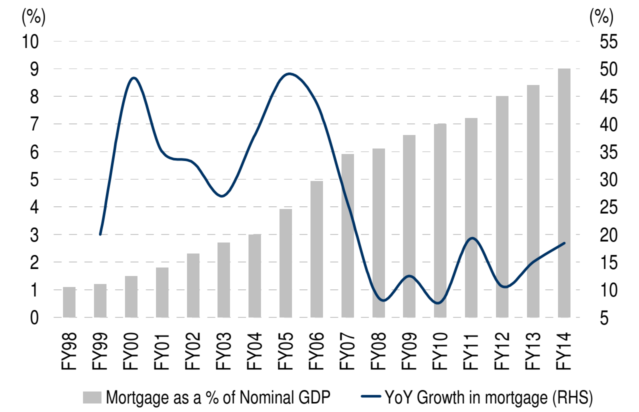
Source: CSO, Anand Rathi Research

Fig 07 – Lower mortgage penetration than peers . . .



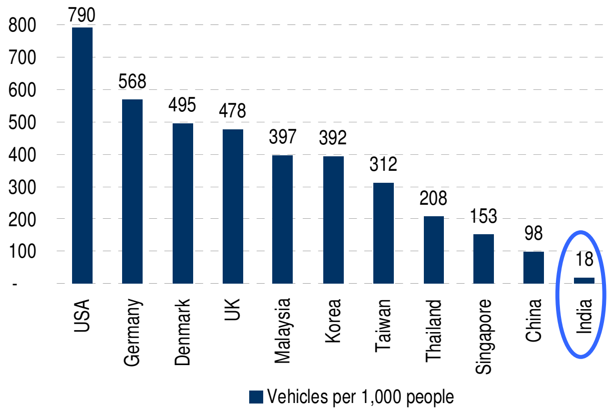
Source: World bank, RBI, NHB, Central Banks, Anand Rathi Research

Fig 08 – . . . shows significant scope for betterment



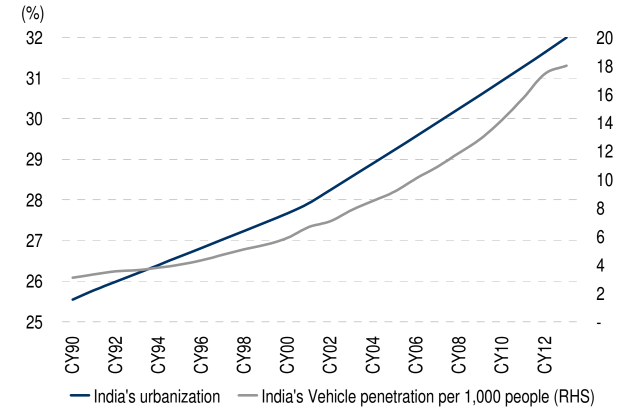
Source: RBI, CSO, Central Banks, Anand Rathi Research

Fig 09 – Low vehicle penetration at 18 per 1,000 people . . .



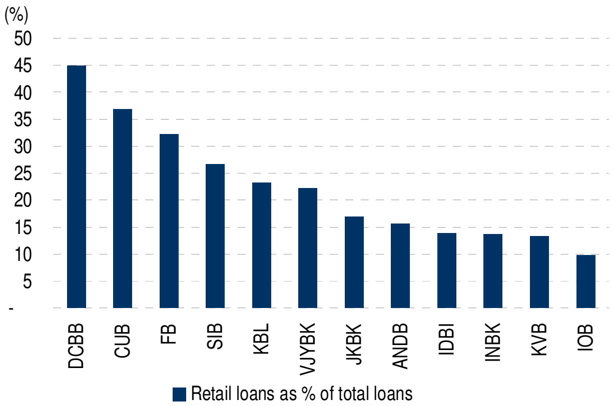
Source: OICA, Anand Rathi Research

Fig 10 – . . . is likely to improve along with urbanisation



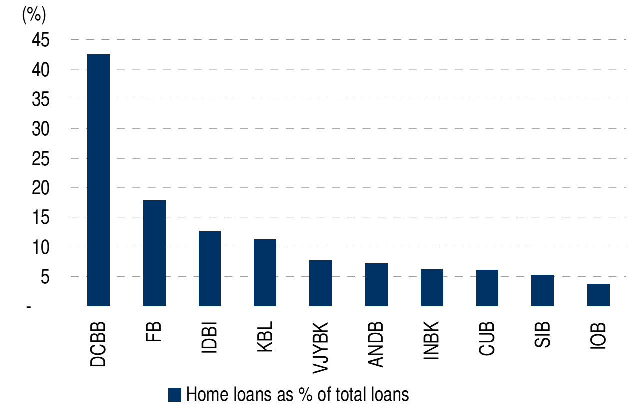
Source: World Bank, CEIC, Anand Rathi Research

Fig 11 – DCB, with the highest share of retail loans to total loans, best placed to play the retail theme . . .



Source: Company, Anand Rathi Research

Fig 12 – . . . and has the highest share of home loans in total loans



Source: Company, Anand Rathi Research

Fig 13 – Valuation table

Bank	Ticker	Price	M Cap	Target	Upside / (Downside)	P / ABV (x)		Target P / ABV (x)		PE (x)		ROE (%)	
		(₹)	(₹ bn)	(₹)	%	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e
Private Banks													
City Union Bank	CUB IN	97	58.6	110	13.6	2.0	1.8	2.3	2.0	12.3	10.2	16	17
DCB Bank	DCBB IN	114	32.2	150	32.0	1.9	1.6	2.5	2.1	14.6	10.2	13	16
Federal Bank	FB IN	130	114.3	175	34.4	1.4	1.2	1.8	1.6	9.8	8.1	14	15
JK Bank	JKBK IN	103	47.8	130	26.2	0.9	0.8	1.2	1.0	5.3	4.5	14	15
Karnataka Bank	KBL IN	127	24.1	160	26.4	0.8	0.7	1.0	0.9	4.8	4.2	14	14
Karur Vysya Bank	KVB IN	547	66.3	690	26.2	1.6	1.4	2.0	1.8	10.7	8.3	14	17
South Indian Bank	SIB IN	26	34.8	32	23.8	0.9	0.8	1.2	1.0	6.8	5.2	13	16
Public Sector Banks													
Andhra Bank	ANDB IN	79	48.6	85	7.1	0.9	0.8	0.9	0.8	5.4	3.9	9	12
IDBI Bank	IDBI IN	72	116.7	75	4.1	0.7	0.7	0.7	0.7	9.3	6.9	5	6
Indian Bank	INBK IN	170	82.2	225	32.5	0.7	0.6	0.9	0.8	6.1	5.0	9	10
Indian Overseas Bank	IOB IN	43	52.9	43	1.2	0.6	0.5	0.6	0.5	13.4	6.1	2	5
Vijaya Bank	VJYBK IN	47	40.1	65	38.4	0.8	0.7	1.1	1.0	5.8	4.5	10	12

Source: Anand Rathi Research

Fig 14 – Changes in estimates

	Recommendations		Target Price (₹)		EPS (₹)			
					FY16e		FY17e	
	Old	New	Old	New	Old	New	Old	New
Private Banks								
City Union Bank	Hold	Hold	82	110	9.0	7.9	11.1	9.5
DCB Bank	Buy	Buy	113	150	7.2	7.8	10.2	11.1
Federal Bank	Buy	Buy	160	175	14.4	13.3	17.7	16.1
JK Bank	Buy	Buy	156	130	26.4	19.4	32.8	22.9
Karnataka Bank	Buy	Buy	180	160	27.0	26.5	34.4	30.5
Karur Vysya Bank	Buy	Buy	675	690	58.9	50.9	74.2	66.1
South Indian Bank	Buy	Buy	32	32	5.7	3.8	7.2	5.0
Public Sector Banks								
Andhra Bank	Hold	Hold	90	85	16.8	14.6	20.6	20.3
IDBI Bank	Sell	Hold	76	75	12.9	7.8		10.5
Indian Bank	Buy	Buy	230	225	31.7	27.7	38.5	33.9
Indian Overseas Bank	Hold	Hold	80	43	8.6	3.2	9.8	6.9
Vijaya Bank	Buy	Buy	65	65	8.9	8.1		10.5

Source: Anand Rathi Research

Theme-based picks

Tight control on opex and lower credit defaults would ensure profitability even in low-yield segments like mortgages

Of the prime requirements to succeed in retail financing are a well-managed cost structure, relationships with borrowers/manufacturers, operations in rural and semi-urban areas (characterised by under-developed banking habits) and robust operating processes. Tight control on operating costs and lower credit defaults would ensure profitability even in low-yield segments such as mortgages.

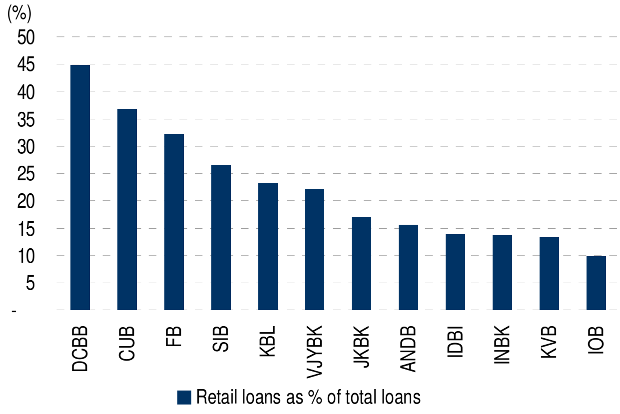
We like banks that offer either cost efficiency or strong product understanding, or have established presence in niche geographical areas

We like banks that offer either cost efficiency or strong product understanding, or have an established presence in niche geographical areas. Such competencies empower the lenders to pass on higher costs to borrowers and maintain profitability across business cycles. Therefore, we prefer south-based banks, which have established themselves as retail players. Of the retail loans in India, south India has the highest proportion (41%). Southern bankers, we believe, offer tremendous growth potential through their great assurance regarding earnings.

Based on the bank's network, positioning, brand strength and scale, we believe the following companies within our coverage could benefit from the increase in retail financing: DCB Bank (Buy - a niche position focusing on retail and working-capital loans), Federal Bank (Buy – growth kicking in from retail and SME – a restructuring story), South Indian Bank (Buy – retail focus with inexpensive valuations), Jammu & Kashmir Bank (Buy – strong support from the home state) and Vijaya Bank (Buy – highest retail share in mid-cap public banking). We reckon City Union Bank (Hold) is also likely to benefit from the retail finance upturn given that its lending is retail focused.

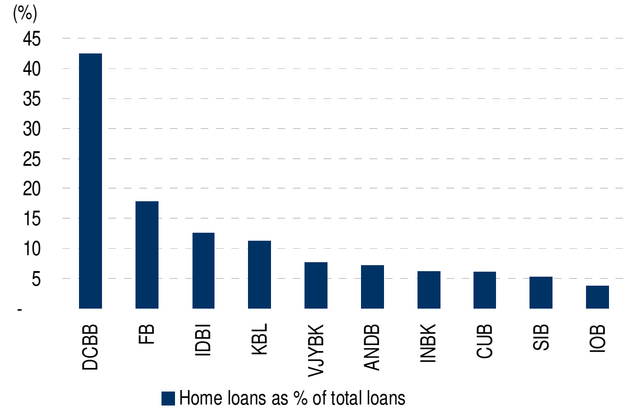
While valuations of a few private banks are currently close to/or above median multiples, we expect further re-rating toward past peaks due to strong growth and profitability kicking in because of the India retail story.

Fig 15 – Share of retail loans in total loans



Source: Company, Anand Rathi Research

Fig 16 – Share of mortgage loans in total loans



Source: Company, Anand Rathi Research

Corporate credit dwindles

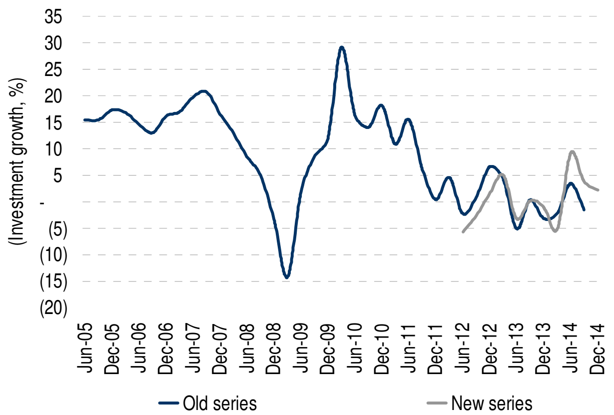
- By Feb'15 credit growth in the banking sector had dropped to 9.4% because of low, 6%, growth in industrial credit. Further, in incremental terms, corporate credit (industry + services) was ₹2.5trn in FY15 compared to ₹4.7trn in FY14.
- While allocation of mines and spectrum would support corporate credit to an extent in FY16, this is unlikely to have a material impact.
- Corporate balance sheets in India are highly leveraged; debt of BSE-500 companies has seen a 23% CAGR in the last six years, whereas profits have grown only 9%.

The capex cycle will take at least 15-18 months to revive

- The capex pipeline in India is almost depleted, and fresh proposals are few. The capex cycle would take at least 15-18 months to revive.

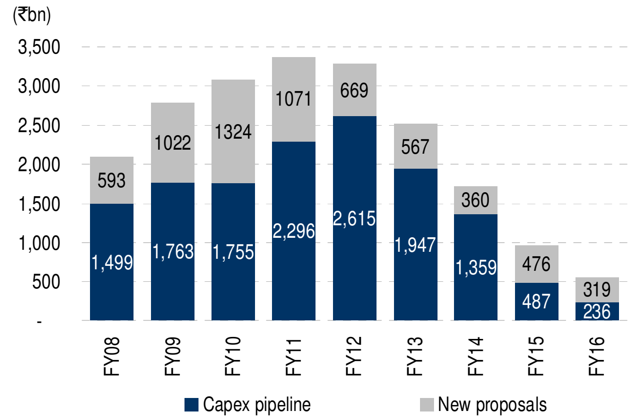
Low investment growth continues. On the new data series (base FY12) India's GDP growth has substantially increased compared to the old series (base FY05). For a detailed discussion on the merits of the new GDP series refer to "Economy – GDP, Uncertain past, bright future" dated 2nd Feb'15. In the new series, GDP growth, calculated from FY12, on an average, was 121bps higher than the old series. In the new series, however, no significant jump has been seen in investment growth (Fig 17). On average, investment growth under the new series has increased by just 6bps compared to the old series. Besides, the capex pipeline in India is almost depleted and fresh proposals are few. Capex investment for FY16 has halved from FY15, while new proposals are the lowest in nine years (Fig 18). This lack of investment growth is thus the largest challenge the Indian economy is up against.

Fig 17 – No jump in investment in new GDP series



Source: CSO, Anand Rathi Research

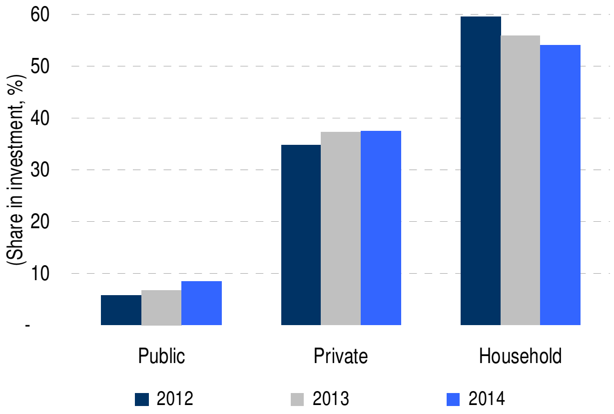
Fig 18 – Poor capex pipeline and new proposals



Source: RBI, Anand Rathi Research

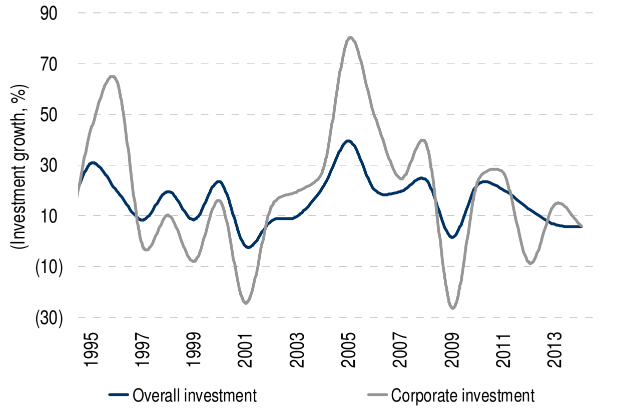
Corporate sector, key to investment recovery. In India, a large part of investment arises from households, which contribute more than 50% of domestic-funded investment overall (Fig 19). A large part of household investment goes to residential construction and other physical assets. The private sector is a close second, contributing ~40% to investment. Hence, it is not surprising to find that corporate investment is the most dynamic and cyclical part of domestically-funded investment (Fig 20).

Fig 19 – Households dominate domestic investment



Source: CSO, Anand Rathi Research

Fig 20 – Corporate investment cyclical to overall investment



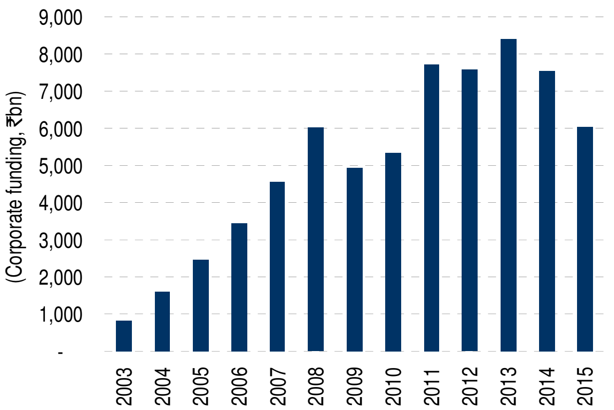
Source: CSO, Anand Rathi Research

For the first time in incremental corporate funding, share of domestic corporate debt has exceeded that of bank funding

Deteriorating corporate funding scenario. External funding (all except internal accruals) of the Indian corporate sector registered a 49% CAGR during FY03-FY08. In the aftermath of the financial crisis, the situation worsened drastically in FY09, followed by a smart recovery between FY11 and FY13. In the last two years, however, the situation has deteriorated. Corporate funding contracted 15% in the last two years; the FY15 figure is the lowest in five years (Fig 21). It seems that while a section of corporates are faced with a funding crunch, others withheld expansion even with funds available.

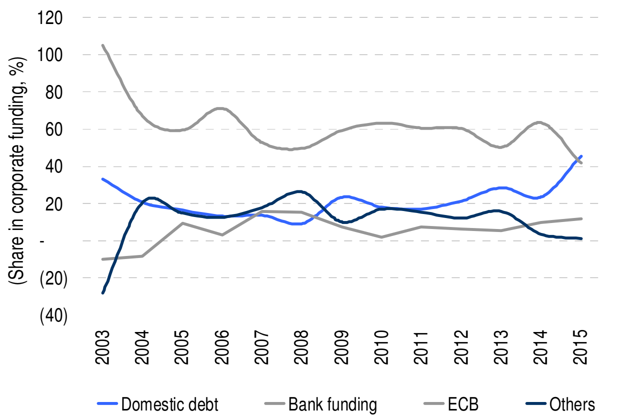
Share of banks in corporate funding falling. In India, banks have traditionally been the main source of corporate funding. Figure 22 shows that banks have provided more than 50% of corporate funding, with the percentage falling over time. For the first time, in FY15, the proportion of domestic corporate debt in corporate funding has exceeded that by banks. The share of external commercial borrowing (ECB) to corporate funding has also been rising in recent years. The increasing share of domestic debt and ECB in corporate funding contrasts with the argument by banks that the lack of buoyancy in corporate borrowing is due to the lack of funding demand by corporate bodies.

Fig 21 – Deteriorating corporate funding



Source: RBI, Anand Rathi Research

Fig 22 – Share of banks in corporate funding falls

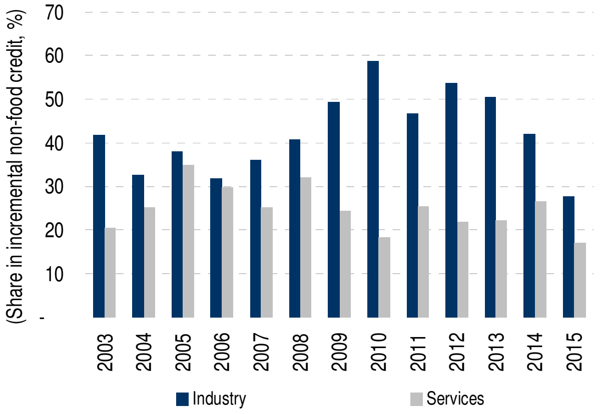


Source: RBI, Anand Rathi Research

Share of industry in incremental non-food credit has declined from 59% to 28% from FY14 to FY15

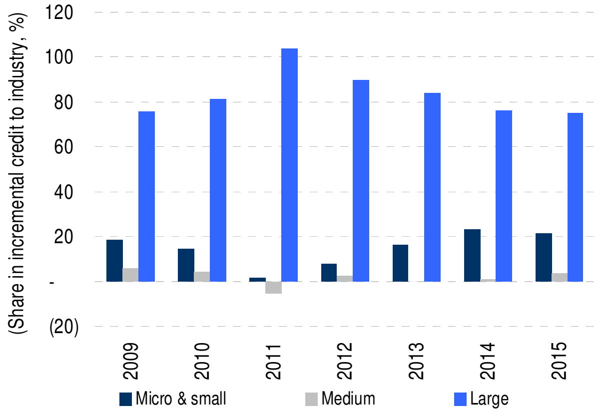
Bank credit to industry falling fast. Incremental bank lending to corporate bodies has collapsed. Incremental non-food credit has declined at a CAGR of 3% between FY11 and FY15. We find banks are unwilling to channel credit toward industries (Fig 23). During the same period, the share of industry in incremental non-food credit declined from 59% to 28% while the share of services in non-food credit declined marginally, from 18% to 17%. In particular, bank lending to large companies has dropped sharply in this period (Fig 24). Although large industries still command nearly 80% of incremental industry credit, this share is declining. Incremental bank credit to medium-sized industries has also been low. It is only in the micro and small industries segment that we see higher bank credit. Since credit to these institutions falls under the priority-sector lending obligation, it seems that the statutory requirement rather than genuine willingness of banks to lend to such segments has driven such flows.

Fig 23 – Dis-inclination of banks to fund industries . . .



Source: RBI, Anand Rathi Research

Fig 24 – . . . especially large industries



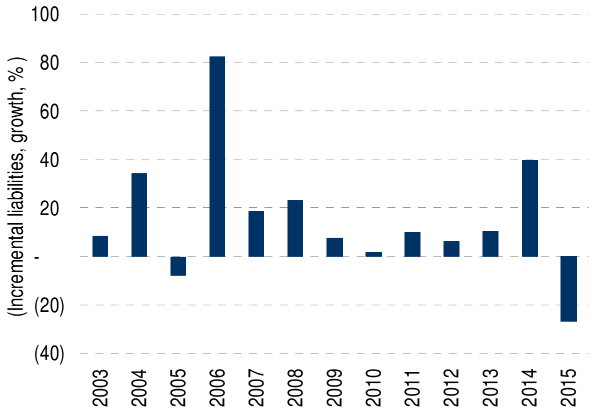
Source: RBI, Anand Rathi Research

Incremental bank credit to industry down nearly 50% in FY15 from FY14

Broad-based fall in bank credit to corporates. With overall incremental bank credit to industry down nearly 50% in FY15 (from FY14), most industries saw contraction in incremental credit flows in FY15 vs. FY14. The fall in international commodity prices and the softening of domestic inflation can partially explain the decline in credit to industry as these led to the drop in working-capital demand. Yet, the near across-the-board fall in incremental credit suggests that these factors are relatively minor in explaining the steep drop. Of the major segments, power, construction and mining registered growth in incremental credit in FY15 vs. FY14. The share of power in incremental bank credit to industry jumped from 25% in FY14 to 49% in FY15 on account of additional loans granted to the sector under term agreements of Discom restructuring and corporate debt restructuring of private operators.

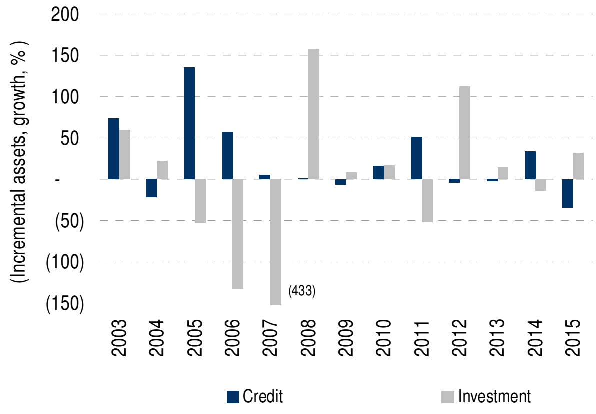
Reluctance and inability of banks to fund corporates. In FY15, banks' incremental liabilities (deposits and borrowings) contracted 27%, the sharpest fall in 19 years. The fall in incremental fund availability partly explains banks' inability to expand credit during FY15 (Fig 25). Lack of fund availability, however, is inadequate to explain the contraction in incremental bank credit as incremental investment by banks during FY15 in fact rose 32%. Contraction in incremental credit simultaneous with a considerable jump in investments suggest that either banks faced little credit demand and therefore were compelled to invest or that they preferred investment over extending credit (Fig 26). With more than 70% of the outstanding credit and deposits, public-sector banks have experienced a sharp jump in non-performing assets in the recent past (Fig 27). In addition, restructured assets of the public-sector banks have increased. Faced with such risks, banks have shied away from lending to corporates.

Fig 25 – Lack of deployable funds with banks



Source: Company, Anand Rathi Research

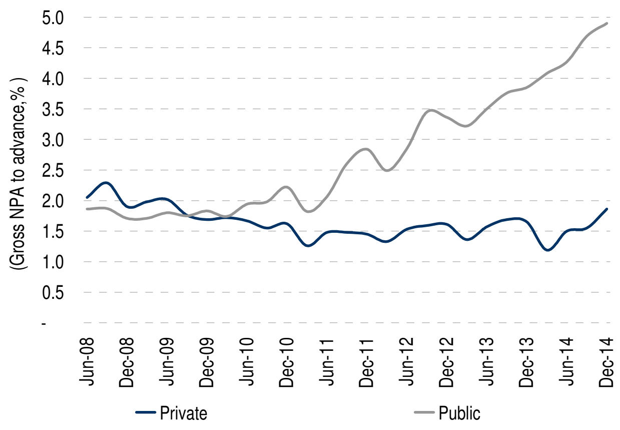
Fig 26 – Banks also declined to lend



Source: Company, Anand Rathi Research

Banks shied away from corporate lending due to the rise in corporate sector NPAs and high restructuring

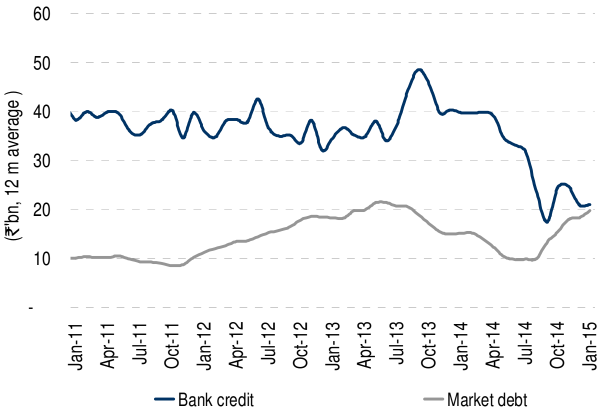
Fig 27 – High NPAs for public-sector banks



Source: RBI, Anand Rathi Research

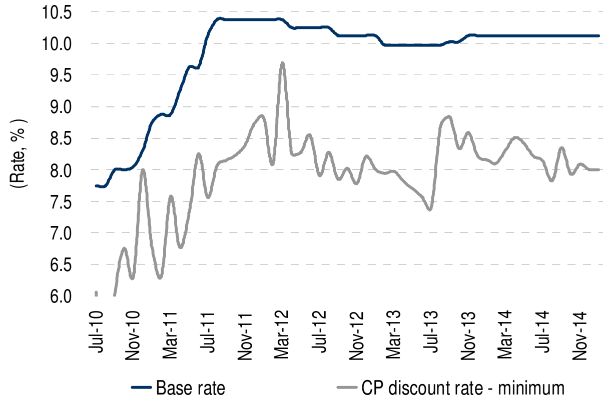
Corporates preferred market to bank debt. Domestic corporate debt issuance (net, including public debt and private placement) has increased steadily since FY10. During FY11-FY15, corporate debt issuance registered a 20% CAGR. In FY15, domestic corporate debt overtook bank lending as the largest source of corporate funding (Fig 28). Corporates preferred the debt market rather than banks since the cost of borrowing from the latter was higher. The minimum lending rate of banks (base rate) has been 10% or higher since May'11 (Fig 29). However, in the last couple of days, large banks have reduced their base rate by 15-25bps. We do not expect any material decline in this. No marked fall has been seen in this rate in the last two years. By contrast, debt-market interest rates have declined considerably in FY15.

Fig 28 – Market debt and bank credit converge



Source: RBI, Anand Rathi Research

Fig 29 – CPs offer lower cost of borrowing than banks



Source: RBI, Anand Rathi Research

Bank lending revival is the only route to capex recovery. While the share of domestic market debt in corporate financing, at 45% in FY15, is also at a record high, this is due to the collapse of incremental bank funding to corporate bodies, from ₹4.7trn in FY14 to ₹2.5trn in FY15. This made domestic debt the single largest source of corporate funding in India. It appears unlikely that domestic market debt can make good the fall in bank lending to corporates. The contribution of foreign capital to investment has been well below 10%. While we expect Indian corporates to continue attracting strong foreign inflows, the quantum would not be able to make good the fall in bank lending.

We expect a turnaround in the Indian retail finance market over the next couple of years

Retails loans: a Hobson's choice. With a decline in the inclination as well as the opportunity to lend to corporates, banks are compelled to look at other avenues of lending for growth. We believe retail lending to be the next growth driver for Indian banks. A comparison of India's retail lending penetration levels with developed and emerging markets, when juxtaposed against demographic trends and income levels also reflect significant long-term potential here. After a sluggish 4-5 years, we expect a turnaround in the Indian retail finance market (in particular, housing, auto and CVs).

The re-emergence of retail lending

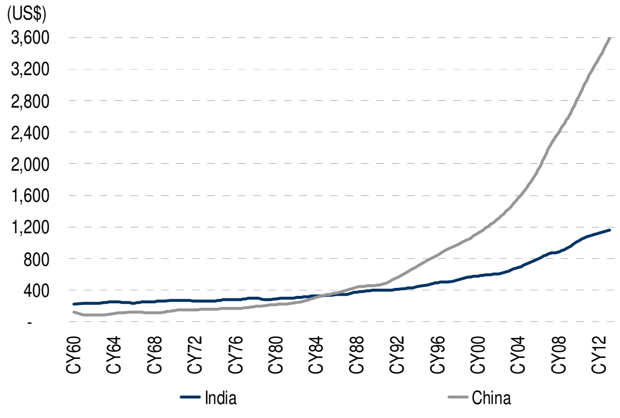
- The long-term potential for retail financing in India is strong given the low ownership of retail loan-funded assets, low household indebtedness, demographic profile and rising income and aspiration levels.
- We compare India with global peers across macro-economic variables and key growth drivers to estimate the growth potential of the Indian retail financing segment over FY14-18. We conclude that (i) the share of auto loan outstandings in bank loans would rise from 2.5% to 3% at a 15-18% CAGR over three years and (ii) outstanding mortgages would grow from ~₹10trn to ₹16trn-18trn, at a 15-18% CAGR.

Banks innovating with retail products, the latest one being "used tractor financing"

Banks' RoEs to expand with greater share of retail lending. While incremental RoEs for banks currently range between 8% and 17%, we believe this would increase with a rise in the proportion of retail lending. We do not expect a repeat of 2004-2007 when competition had cut into banks' profitability. Overall, RoEs for banks would increase, driven by higher RoEs on retail products than in corporate lending. Banks are also turning innovative in terms of various retail products they can sell to customers, the latest one being "used-tractor financing", still in the policy-making stage.

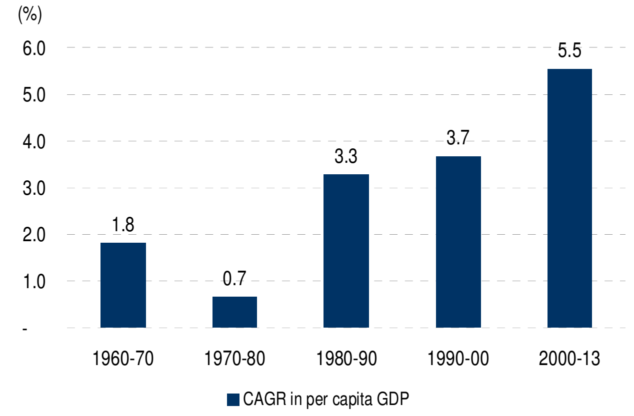
Upward growth trajectory of GDP per capita. India's per-capita income, at $1,165 in 2013, was one-third China's $3,583. Interestingly, India's per-capita income was 60% higher than China's in 1960 (Fig 30). However, the pace of growth in GDP per capita for India has risen over the past four decades (Fig 31). India has now overtaken China as the fastest growing nation in terms of real GDP growth. According to the World Bank, India's GDP growth will accelerate in the next 4-5 years, while China's is likely to slow down. By 2020, India's population is likely to increase to 1.35bn, but still below China's expected 1.43bn. Low population growth with accelerated GDP growth would push up per-capita GDP. We believe that a consistent rise in India's per-capita income would most likely drive up consumer spending and, thereby, sales of retail products such as housing and passenger cars.

Fig 30 – India's per-capita GDP behind China's



Source: World Bank, Anand Rathi Research

Fig 31 – CAGR of per-capita GDP highest in the last decade



Source: CSO, Anand Rathi Research

Weights of non-food items in consumption expenditure rising

Household consumption expenditure surveys compiled by the NSSO have revealed an interesting trend. The weights of non-food items in consumption expenditure have increased, and most of this has gone to spending on other non-food items. In rural areas, the proportion of non-food items in expenditure has increased from 36% in 1988 to 51% in 2012. In the same time, this proportion in urban India has gone up from 44% to 62% (Fig 32). We expect this trend to continue on the back of the rising average annual income of the urban middle class in India.

Fig 32 – Average expenditure per person for 30 days

	1988		1994		2000		2005		2010		2012		CAGR, %	
(₹)	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Food	101	140	178	250	289	411	308	447	497	727	622	923	8	8
Cereals and cereal substitutes	42	37	68	65	95	90	101	106	146	163	154	177	6	7
Milk, milk products	14	24	27	45	44	75	47	83	80	139	116	186	9	9
Egg, fish and meat	5	9	9	16	17	23	19	28	32	48	46	67	10	9
Vegetables	8	13	17	25	32	40	34	47	57	77	62	81	9	8
Fruit	3	6	5	12	8	20	10	24	15	37	25	56	9	10
Other food	29	51	51	88	93	163	96	159	167	264	220	355	9	8
Non-Food	57	110	104	208	197	444	251	605	431	1,058	657	1,476	11	11
Fuel and light	12	17	21	30	37	66	57	105	88	143	118	183	10	10
Clothing and footwear	12	18	18	26	25	62	30	49	68	100	97	157	9	10
Durable goods	6	11	8	15	13	31	19	43	44	119	78	152	12	12
Other non-food	28	65	58	137	122	285	146	408	231	697	363	985	11	12
Total	158	250	281	458	486	855	559	1,052	928	1,786	1,279	2,399	9	10
Food %	**64**	**56**	**63**	**55**	**59**	**48**	**55**	**43**	**54**	**41**	**49**	**38**		
Non-Food %	**36**	**44**	**37**	**45**	**41**	**52**	**45**	**57**	**46**	**59**	**51**	**62**		

Source: NSSO, Anand Rathi Research

Urban housing shortage is estimated at 18.78m units

Number of houses still low. In FY10 the average annual income of the urban middle class was ₹194,000, and there were only 43.6m houses (Fig 33). And the large unmet demand for housing, especially among the urban middle class, still continues. The urban housing shortage is estimated at 18.78m units. We feel that a consistent rise in incomes would lead to construction of more houses.

Fig 33 – Number of houses and income of the urban Indian middle class

	Houses (m)	Average annual income of urban middle-class households, (₹ '000)
FY99	22.1	163
FY02	27.0	169
FY10	43.6	194

Source: NCAER, Anand Rathi Research

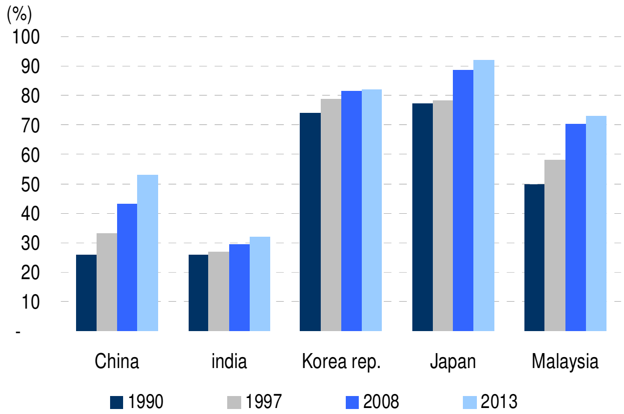
Affordable housing will require investment of ~$250bn annually

"Housing for all by 2022" to boost mortgage finance in India. The GoI's target of affordable housing for all by 2022 would boost mortgage finance. Housing for all would require 110m housing units to be built. A KPMG study puts affordable housing investment required at ~$250bn annually. At present, banks have ~60% share in mortgage financing in India. Assuming the present proportion is maintained and 30% equity is infused by a buyer, banks would see a ~$105bn opportunity in housing finance annually, equal to the current outstanding mortgage finance in India. While we are not factoring in any figure regarding this, it could be a big game-changer for the mortgage finance industry, in our view.

Higher urbanisation implies increased economic activity and thereby better income levels

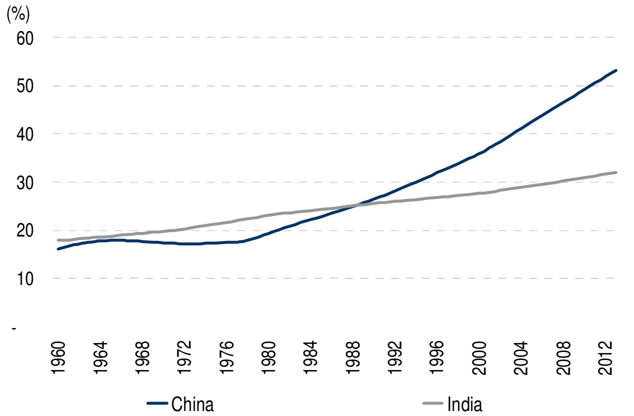
Significant benefits but slow progress in urbanisation. The level of urbanisation in India is at present a low 32%, vs. China's 53% and other emerging and developed markets such as Malaysia, Japan and South Korea at 73% to 92% (Fig 34). The slow growth in urbanisation in Korea and Japan can be explained by their already high levels. Compared with China, we were at a similar level of urbanisation in 1987. However, given its focus on industrialisation, China overtook India (Fig 35). We expect urbanisation levels in India to increase to ~34% by FY18. India's urbanisation would come more from rural areas urbanising than from large-scale migration to urban areas. We feel that the sharper focus on infrastructure across the country, the setting up of industrial corridors and the likely expansion of suburbs as cost of living in metros increases would lead to greater urbanisation. This implies increased economic activity (also moving up the value chain) and thereby better income levels.

Fig 34 – India's urbanisation level lowest among peers



Source: The World Bank, Anand Rathi Research

Fig 35 – China's urbanisation overtook India in 1987

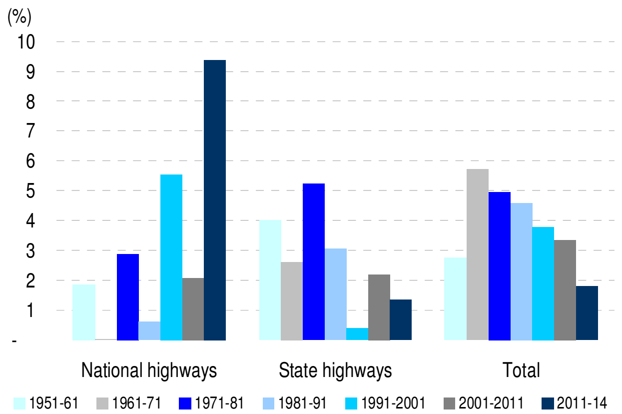


Source: The World Bank, Anand Rathi Research

The Ministry of Roads in India, estimates that ~87% of passenger traffic and 60% of freight is carried by roads

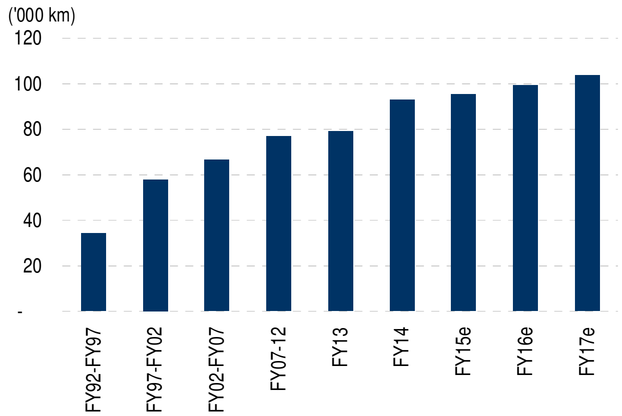
Increasing road density would also aid urbanisation. India currently has the second-largest road network in the world, next only to China. Growth in the Indian network in the past several years has been restrained – from 1991 to 2014 in national highways at a 4.5% CAGR, in state highways 1.2%, and all roads together 3.3%. In recent years, however, (FY11-14) the CAGR in national highways was 9.4% (Fig 36), with development of national highways being given preference over other roads. The government plans to add ~10,000km of national highways in the next two years to touch 103,000km by FY17 (Fig 37). The development of road and highway networks covering semi-urban and rural areas would increase urbanisation and auto and housing demand.

Fig 36 – CAGR in road construction – category-wise



Source: NHAI, Ministry of Roads & Transport, Anand Rathi Research

Fig 37 – National highways

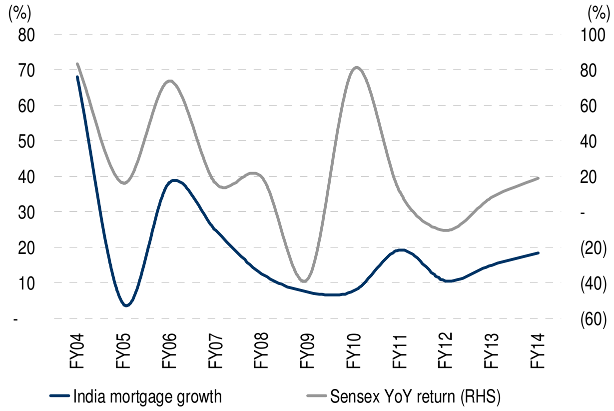


Source: NHAI, Anand Rathi Research

61% and 75% correlation of Sensex returns with mortgage and auto sales respectively.

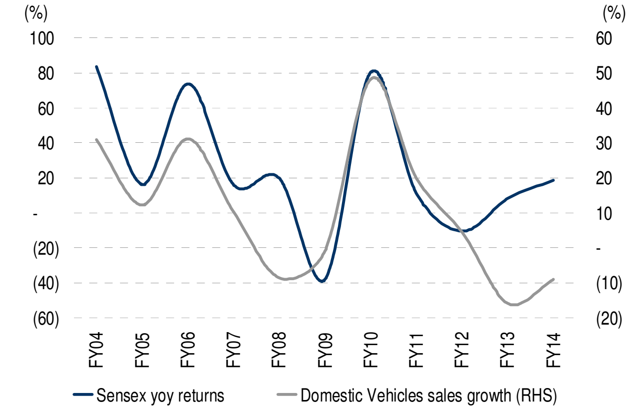
Market moves in sync with auto and housing. Capital markets are strongly correlated with auto sales and mortgages in countries such as India, the USA, China and Korea. Periods of high stockmarket returns imply greater wealth, leading to mounting demand for housing and cars, among other retail products. In India we find a 0.61 and 0.75 correlation of the Sensex with mortgages and auto sales, respectively. After negative returns in FY12 in the stock markets, along with mortgages dipping, visible improvement has since been seen (Fig 38). We note a similar trend between market returns and domestic vehicle sales, but with a lag (Fig 39). Domestic vehicles sales, though, have stabilised, and would markedly improve from H2 FY16.

Fig 38 – High correlation: markets and mortgage growth



Source: RBI, Bloomberg, Anand Rathi Research

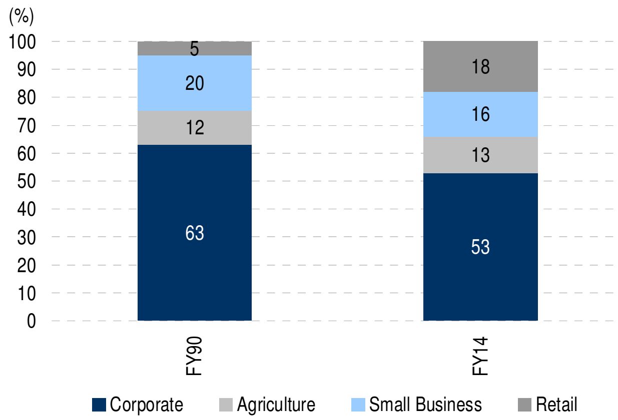
Fig 39 – Also between markets and domestic vehicle sales



Source: SIAM, Bloomberg, Anand Rathi Research

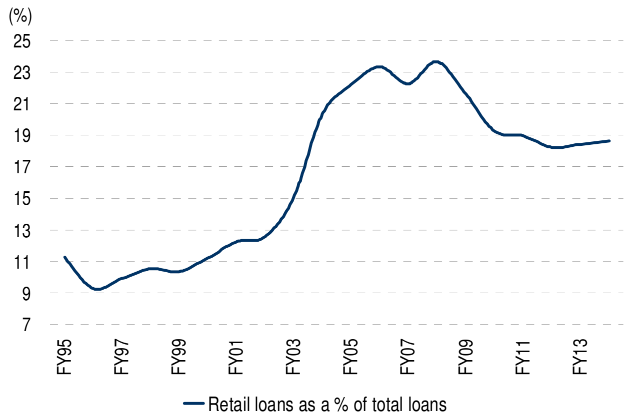
Share of retail loans rising. Twenty-four years ago, retail lending was only 5% of bank advances. This has now risen to 19% in FY15. Bank advances to corporates and small businesses declined during that period (Fig 40). Even until 2002, retail loans were less than 12% of loan assets of Indian banks. However, the 2004 to 2007 boom years saw a rapid build-up of retail loan portfolios of banks, leading to retail loans quickly reaching a quarter of overall banking assets. Thus, between 2004 and 2007, retail lending accounted for 35% of incremental loan assets of the Indian banking system, with retail loan portfolios in the system registering a scorching 70% CAGR. This short, sudden surge in growth was followed by a painful and prolonged (five-year) consolidation period, with the share of retail assets falling to a low of 18.25% in FY12. However, over the past couple of years, growth in retail lending has again picked up, though at a modest pace (a 14% CAGR over three years) (Fig 41).

Fig 40 – Share of retail lending expanded



Source: RBI, Anand Rathi Research

Fig 41 – Share of retail loans to total loans stabilising

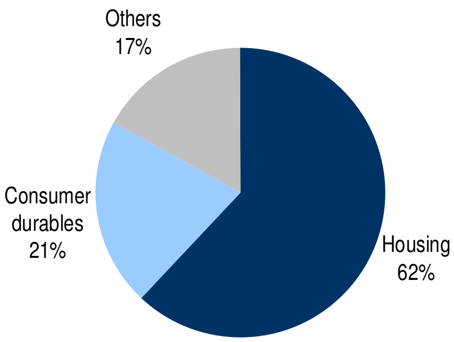


Source: RBI, Anand Rathi Research

Expansion of retail lending in multiple asset classes

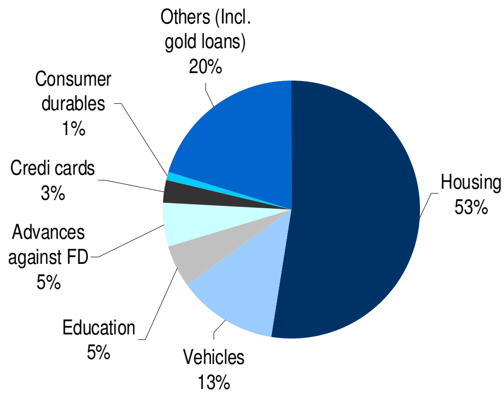
Housing dominates retail loans: In the 1990s, retail lending was dominated by housing and consumer loans, which accounted for 83% of retail lending. Today, banks have entered into multiple retail asset classes, with differing drivers. From three, retail loans are now classified into more than seven segments (Figs 42 and 43). While the share of housing has fallen from 62% in the 1990s, it still accounts for most retail loans. The proportion of vehicle loans rose to 12.6% last year, also the highest in the past five years. Credit card loans, the share of which in retail lending was below 10%, has been declining. However, signs of improvement are visible in the past three quarters. The share of education loans has fallen to ~5%, after having peaked out in FY11 (Fig 44).

Fig 42 – Break-up of retail lending (1990)



Source: RBI, Anand Rathi Research Note: Only banks

Fig 43 – Break-up of retail lending (2014)



Source: RBI, Anand Rathi Research Note: Only banks

Fig 44 – Break-up of retail loans over the decade

(%)	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	Jan-15
Housing	47.7	49.5	51.6	52.8	51.2	51.4	54.8	51.6	50.5	53.3	52.2	52.4
Vehicle						10.8	8.0	9.8	9.4	9.4	12.6	12.6
Education						4.5	6.9	7.0	6.9	6.3	5.8	5.4
Credit cards						5.5	3.9	3.1	3.0	2.9	2.4	2.7
Others	52.3	50.5	48.4	47.2	48.8	27.8	26.4	28.5	30.2	28.1	27.1	26.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: RBI, Anand Rathi Research

Fig 45 – Characteristics of the top retail lending segments in India, accounting for >80% of retail lending

	Mortgage	Auto-4W	Auto-2W	CVs	Gold	Business Banking / SME / LAP
FY14 loan book ($ bn)	143	28	6	30	25	130
FY20 loan book ($ bn)	348	68	13	65	55	318
FY14-20 CAGR	16.0	16.0	14.0	13.8	14.0	16.0
Ticket size, ₹	2—2.5m	0.5m	45,000	LCVs: 0.35m M&H CVs: 1.65m	40,000	2—100m
Tenure (years)	15—20	3	1	3—4	3—6 months	3—10
Yield (%)	10.1—12.5	11—14	20—22	12—22	18—22	12—22
RoA (%)	1.5	2	3	2.2	3.1	2.7
Loss rates (bps)	10—30	80—130	80—130	60—80	10	10—12

Source: Company, Anand Rathi Research

Fig 46 – Key segments on the basis of risk – from low to high

Segment	Key strength required
Mortgages	Low cost of funds
	Robust ALM understanding of the real-estate market
	Managing credit risk
Gold loans	Quick execution skills
	Ability to loan out cash
	Ability to value gold jewellery
New cars/ New CVs	Manufacturing relationships
	Low cost of funds
	Operations in rural/ semi-urban areas
	Managing credit risk
Two-wheelers	Manufacturer relationships
	Low cost of funds
	Operations in rural/ semi-urban areas
	Managing credit risk
Credit cards and personal loans	Strong underwriting skills
	Collection capability
	Large existing customer base

Source: Company, Anand Rathi Research.

Shift toward secured products. The large banks suffered heavy defaults after sanctioning unsecured loans in the previous cycle of 2005-09. Those have now been replaced by secured loans. This has led to a sharp drop in the loss rate. In cycle 1, while the loss rate ranged from 5% to 15%, in the present cycle the loss has been restricted to less than 1% (Fig 47).

Fig 47 – Loss rate has fallen drastically

Cycle 1	Unsecured personal loans	Unsecured business loans
	LTV: NA	LTV: NA
	Yield: 35—40%	Yield: 17—25%
	Loss rate: 10—15%	Loss rate: 5—8%
Cycle 2	**Gold loans**	**Loan against property**
	LTV: 75	LTV: 50—70%
	Yield: 18—22%	Yield: 12—22%
	Loss rate: <1%	Loss rate: 1%

Source: Company, Anand Rathi Research

Maharashtra and the four southern states command 58% of the total retail loans in India

Retail-loan demand more from southern and western states. Maharashtra generates the greatest demand for retail loans. The four southern states (Tamil Nadu, Andhra Pradesh, Karnataka, Kerala) accounted for 41% of retail loans. Data from 2004 show that the share of the states has not changed much (Fig 48). The FY14 GDP growth rates of Maharashtra and the four southern states have been equal to or higher than the national average (in terms of the old GDP series). These states have consistently grown more than the country. We expect growth to be buoyant in these states in the next 3-4 years, leading to greater demand for retail loans. Hence, our call on south- and west-based banks such as DCB, Federal, South Indian and Vijaya.

Fig 48 – Maharashtra commands the highest share of retail loans

(% share)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Maharashtra	16	18	18	19	17	20	17	18	18	17
Tamil Nadu	13	11	11	10	12	12	11	11	12	13
Andhra Pradesh	9	9	8	9	9	10	10	11	10	11
Karnataka	10	10	11	11	11	10	10	9	10	10
Kerala	6	6	6	6	6	6	7	7	7	7
Delhi	8	8	9	8	7	8	7	8	8	7
Uttar Pradesh	6	6	6	6	6	5	5	5	5	5
Gujarat	4	4	4	5	5	4	4	4	5	5
West Bengal	5	5	5	5	4	5	5	4	4	4
Others	24	23	23	23	22	21	23	23	23	22

Source: RBI, Anand Rathi Research

Less than 29% of the Indian households have debt of any form

Household sector under-leveraged. Less than 29% of Indian households have debt of any form (incl. from the unregulated lenders). This is significantly lower than in developed and emerging market countries. Of the consumer debt in India, 35% arises in the informal market (money lenders, relatives and friends, other informal sources). Indian households being under-leveraged, the unregulated market can be penetrated. This should boost retail lending.

Fig 49 – Households with cash debt at a low 29%

	% of households with cash debt
1991	21.7
2002	23.7
2012	28.5

Source: NSSO, Anand Rathi Research

Fig 50 – 35% penetration in unregulated sector available

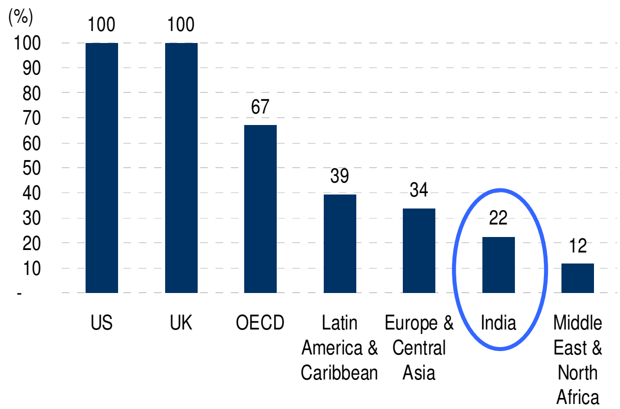
	Financiers	% share
Regulated	Commercial banks / NBFCs	38
	Co-operative banks / societies	22
	Other formal sources	5
Unregulated lenders	Moneylenders	26
	Relatives and friends	7
	Other informal sources	2

Source: NSSO, Anand Rathi Research

CIBIL's database also has positive data i.e. non-defaulters data and data where only enquiries have been conducted

Extensive use of credit bureaus curtails wilful defaults. Credit bureaus (the biggest being CIBIL) have become relevant in the past few years. CIBIL has records of ~155m customers covering most borrowers in the top-50 cities of India and ~20% of adults in India. Financiers' increasing reliance on credit-bureau reports has led to a substantial reduction in potential loan-loss rates. Hit rates for credit records have crossed 80% in certain segments (~20% five years ago) and CIBIL reports are emerging as a primary eligibility criterion in consumer financing, though not the only one. The penetration level of credit bureaus in India is currently evolving (Fig 51). The data cover customers' credit histories and scores, and can be accessed by lenders. With a query to CIBIL, lenders can now ensure that customers have the right credit history. Use of CIBIL reports deters concurrent borrowings and serial defaulters, enabling informed and objective credit decisions. What sets CIBIL's database apart is that it also has positive data, ie, about non-defaulters and data where only enquiries have been conducted. All this helps significantly in reducing fraud. Studies have shown that default risk is lower in countries where banks share more information and not merely a list of defaulters (Fig 52).

Fig 51 – Penetration of credit bureaus across economies



Source: RBI, Anand Rathi Research

Fig 52 – Sharing of various information across economies

Sources of Information \ Types of Information	Positive & Negative Information	Negative Information
"Full" (Information shared by banks, retailers, NBFCs	**High Predictiveness** (e.g. US, UK, India)	**Lower Predictiveness** (e.g. Australia, Swaziland)
"Fragmented" (e.g. Information shared among banks only or retail only)	**Lower Predictiveness** (e.g. Mexico, Kuwait)	**Lowest Predictiveness** (e.g. Malaysia, Botswana)

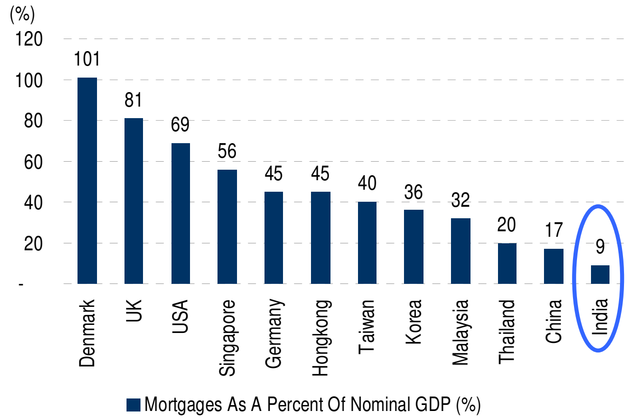
Source: RBI, IFC

Housing Finance

Of DCB Bank's advances, 42% are housing loans. The figure for Federal Bank is 13.5%. Of public-sector banks, Vijaya Bank is best placed, with a 7.7% proportion of mortgages

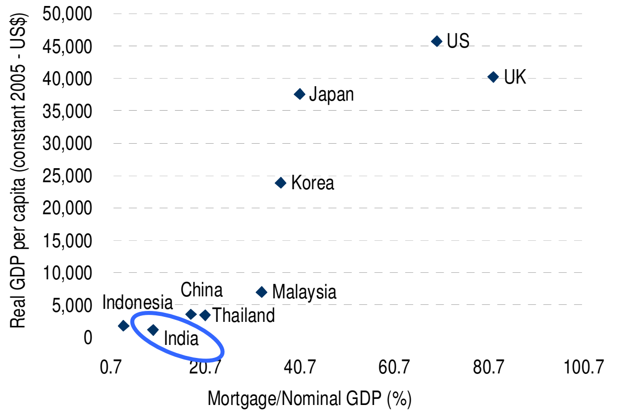
Low penetration to drive growth. In the past 14 years India has seen a rapid increase in its mortgage-to-GDP ratio, from 1% in FY00 to 9% in FY14. Besides demographic changes, several factors have led to this expansion, such as (1) lower interest rates, (2) better access to credit - initially from private banks, then from public-sector banks and (3) strong economic growth. However, India's housing loan penetration figures are fairly lower than in developed and emerging markets. In 2014 this was 81% of GDP for the UK, 69% for the US, 32% for Malaysia and 17% for China. We expect a 15-18% CAGR over FY15-FY18 in India's mortgage segment, driven by higher GDP growth (12-16%) and a gradual increase in penetration levels (9-12%) as some potential demand translates to actual purchase. We believe there is an upside risk to our estimates, if property prices were to correct and developers start to build more affordable housing.

Fig 53 – India's mortgage-to-GDP ratio at ~9% is one of the lowest among developed and developing markets



Source: HDFC, Anand Rathi Research

Fig 54 – Mortgage-to-GDP versus real GDP-per-capita across countries

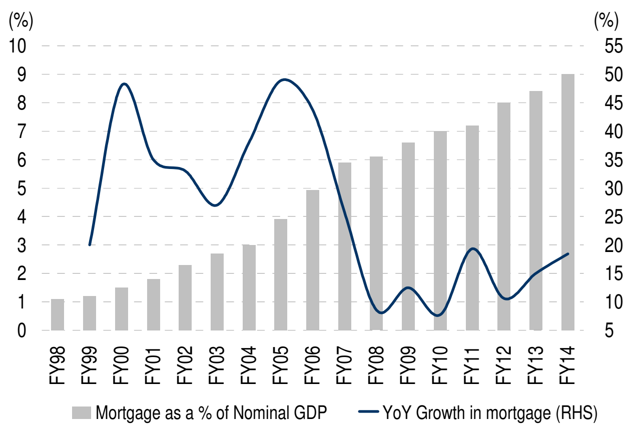


Source: World bank, RBI, NHB, Central Banks, Anand Rathi Research

Mortgage penetration to rise to 12% by FY20

India's mortgage penetration has increased from 3% in FY04 to 9% in FY14 following a 22% CAGR in mortgages over the same period. We expect mortgage penetration to gradually increase to 12% by FY20. According to our sensitivity analysis (Fig 56), we expect mortgage penetration to increase to 11-12% gradually, assuming a 12-15% nominal GDP CAGR and a 15—18% mortgage loan CAGR.

Fig 55 – India mortgage penetration continues to rise



Source: RBI, CSO, Central Banks, Anand Rathi Research.

Fig 56 – We estimate mortgages to see a 15—18% CAGR over FY20, implying mortgage/ nominal-GDP ratio of 10—13% (9% at present)

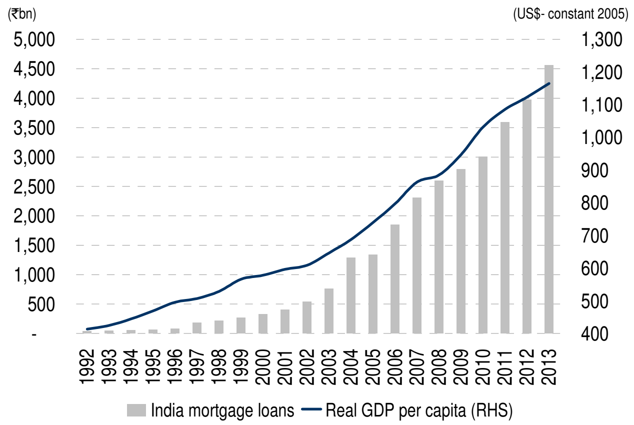
FY20e (%)	Mortgage CAGR (FY14-20e)				
Nominal GDP CAGR (FY14—20e)	12	13	15	18	20
10	9.8	10.3	11.5	13.4	14.8
12	8.8	9.3	10.3	12.0	13.3
13	8.3	8.8	9.8	11.4	12.6
15	7.5	7.9	8.8	10.3	11.4

Source: Anand Rathi Research.

98% correlation between real GDP per capita and mortgage loans

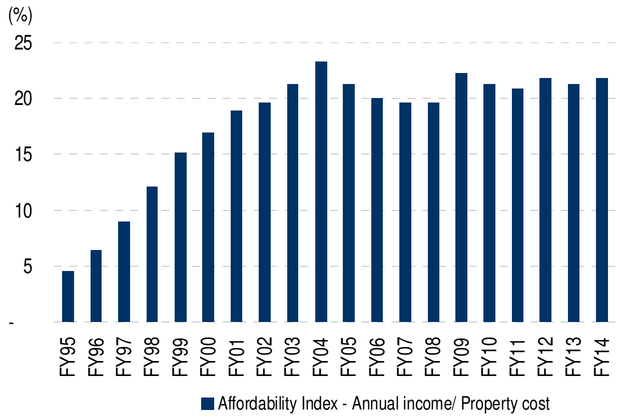
Mortgages and real GDP are highly correlated. With the limited data available regarding housing sales, we have used mortgages as a proxy to ascertain housing-loan demand. We find a strong, 0.98, correlation during 1992-2013 between rising real GDP and housing demand, due to greater affordability. This, despite an increase in property prices and a shift in buyer attitude towards better and larger properties. Based on HDFC's own data analysis, housing affordability has increased significantly in the past 20 years and the housing-value to annual-income level has fallen to 4.6 times in Dec'14 from 22 times in 1995 and 11 times in 1997 (Fig 58). As a result, we believe a positive economic outlook would drive housing penetration. Increased EMI servicing ability could be ascribed to higher income levels, despite rising property prices (Fig 59).

Fig 57 – Mortgages and real-GDP-per-capita



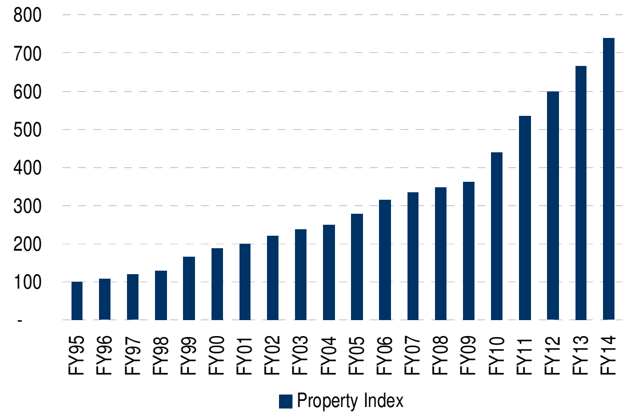
Source: RBI, CSO, Anand Rathi Research Note: LHS only for banks

Fig 58 – Affordability index is rising . . .



Source: HDFC, Anand Rathi Research

Fig 59 – . . . despite rise in the property index



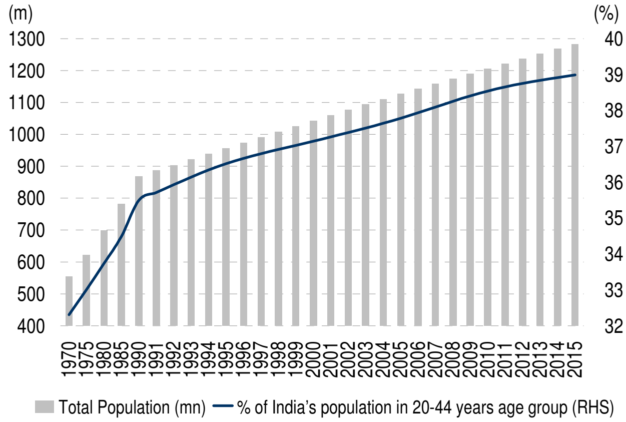
Source: CSO, Anand Rathi Research

Greater affordability also linked to favourable demographics. The demographic profile of a country and emerging trends in this parameter are key determinants of demand potential, specifically for retail products. One of the potential advantages that India has over China is a younger demographic profile, which would likely benefit India for many years to come.

Rising population share of house purchasers to boost mortgages

India's rising population has led to a higher percentage in the 20-44 year age group (~39% in FY15) and the World Bank expects it to grow further by 2020. Already the average age of home borrowers in 2013 was down to 32 years, from 43 in 1999. We also get comfort from the increasing number of nuclear families in India, reflected in the average size of households, which has been coming down for more than two decades now. Between 2001 and 2011, while more-than-five-member households grew 11%, four-member or fewer households have risen 53%. This indicates the growing proportion of smaller households.

Fig 60 – Percent of India's population in the 20-44 year age group (typical home purchasers)

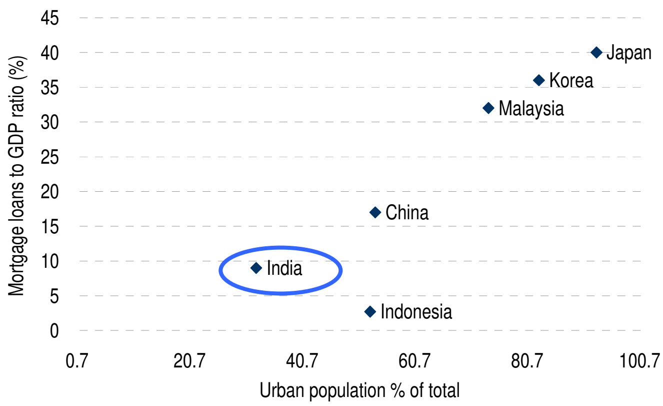


Source: The World Bank, Census, Anand Rathi Research

90% correlation between urbanisation and mortgage demand

Mortgages to receive a fillip from rising urbanisation. As mentioned in the earlier section, the rise in urbanisation has led to the rise in mortgage penetration in the country. India's low urbanisation and mortgage penetration than in some emerging and developed markets highlight the potential in India.

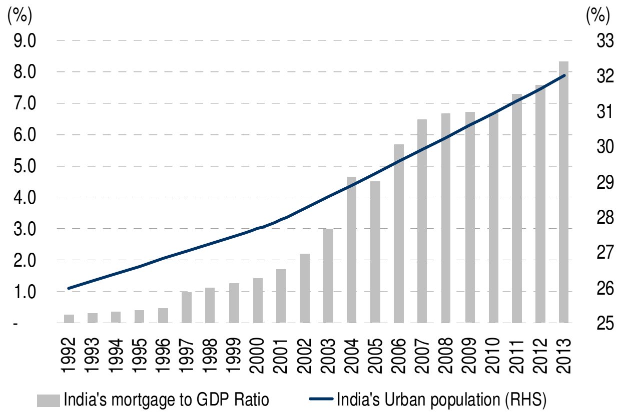
Fig 61 – Urbanisation versus mortgages across countries – 2014



Source: RBI, CEIC, The World Bank, Anand Rathi Research

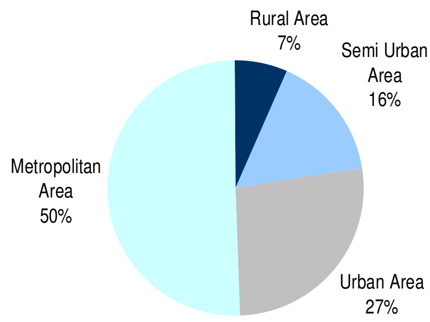
We also found that there is more than a 0.90 correlation between urbanisation and mortgage lending in India. At present, only 32% of the Indian population is urban with ample scope for improvement. According to The Ministry of Housing and Urban Poverty Alleviation the urban housing shortage is estimated at 18.78 million units.

Fig 62 – Mortgage-to-GDP and urbanisation move together



Source: World Bank, RBI, Anand Rathi Research

Fig 63 – 77% of Indian mortgages in metros and urban areas

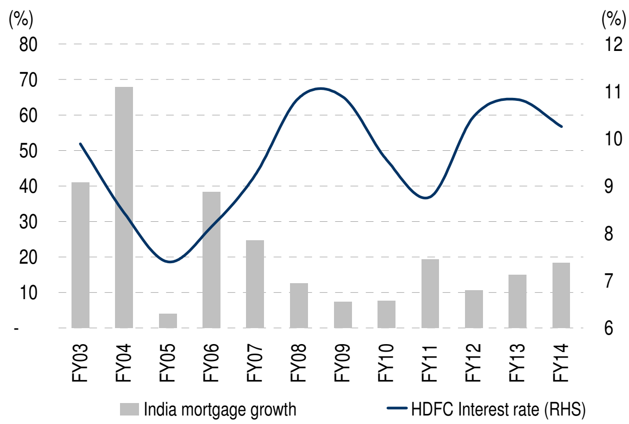


Source: NHB, Anand Rathi Research

Benign interest rate environment to boost mortgage lending

Inverse relation with interest rates. In our view, while the demand for housing is more sensitive to property prices, it is also sensitive to interest rates. As can be clearly seen from Fig. 64, mortgage growth in India declined during FY06-09 when interest rates were rising while it grew in FY11 when interest rates fell. In the last three months the RBI has cut the repo rate by 50bps. While the large banks have reduced their lending rates only in the past couple of days, smaller banks will follow suit. We believe the benign interest-rate environment in India will continue, further boosting mortgage lending.

Fig 64 – India mortgage growth vs HDFC lending rates



Source: RBI, HDFC, Companies, Anand Rathi Research

Effective interest rate on mortgages down ~60% in the last 15 years

Higher tax incentives for mortgages. Recent regulatory changes could lead to housing demand shooting up. The tax-exemption limit for mortgage-interest expense has been increased from ₹0.15m to ₹0.2m. Also, the maximum deduction for repayment of the principal amount has been enhanced to ₹150,000. The effective rate on mortgages has now come down to 4.2%, against 11.6% in FY00 (Fig 65).

Fig 65 – Tax incentives have cut effective interest rates over the years by >60%

	FY00	FY02	FY15
Loan amount (₹)	2,000,000	2,000,000	2,000,000
Nominal interest rate (%)	**13.3**	**10.8**	**10.2**
Maximum deduction for interest allowed	75,000	150,000	200,000
Deduction on principal	20,000	20,000	150,000
Tax rate applicable (%)	**34.5**	**31.5**	**33.9**
Tenure (years)	15	15	15
Total amount paid per year	307,620	269,028	353,000
Interest component	265,000	215,000	203,000
Principal repaid	42,620	54,028	150,000
Tax saved	32,775	53,550	119,985
Effective interest paid on home loans	232,225	161,450	83,015
Effective interest on home loan (%)	**11.6**	**8.1**	**4.2**

Source: HDFC, Anand Rathi Research

With lower risk weights, mortgages allow for decent RoEs despite lower RoAs

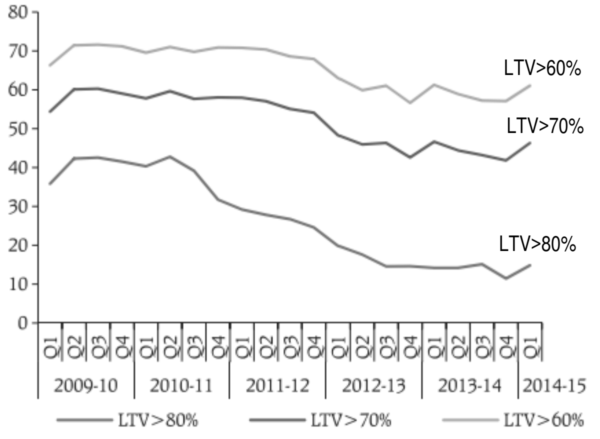
Mortgages carry the lowest risk weight among all retail loan asset classes. The lower risk weight allows for higher leverage levels in this business which make for decent RoE despite low RoAs. Further, the RBI's recent data show LTV at a comfortable level while LTI (loans to income) at a stable level (Figs 67 and 68). As can be seen clearly from the chart below (Fig 67), the maximum lending happens in the 70-80% bucket at origination.

Fig 66 – Characteristics of housing loans

Customer Segment	Salaried / Self-employed
Lending Rate	10.1-11.5%
Lending Rate type	Mostly Floating
Processing fees	0.5-1%
LTV	55-75%
Ticket size (₹)	2-2.5mn
Originating tenure	15-20 years
Actual tenure	5-7 years
Sourcing	DSAs, brokers, lenders own sales force

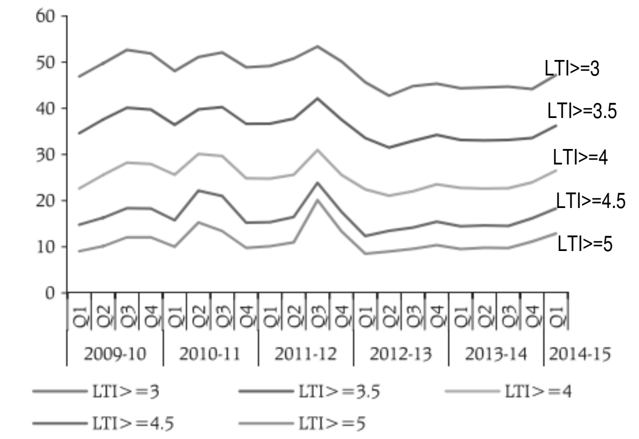
Source: Companies, Anand Rathi Research

Fig 67 – Incremental LTVs are comfortable



Source: RBI

Fig 68 – LTI ratios have also been stable



Source: RBI

Southern banks such as Federal, Karur Vysya, Vijaya, South Indian are the best placed to capitalise on this

Housing finance dominated by south India. Housing finance in India has registered a 15% CAGR in the last five years. We believe it would record an over 15-18% CAGR in the next 3-4 years. The South is the largest market for home loans, constituting 37% of mortgage loans in India, where we are sanguine of buoyant GDP growth rates.

Fig 69 – South commands 37% of housing loans in India

(₹ bn)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
South	316	473	648	832	977	1,104	1,148	1,339	1,424	1,727
Growth %		50	37	28	17	13	4	17	6	21
Contribution %	37	37	36	36	39	39	37	39	38	37
West	199	295	441	596	594	699	767	898	1,041	1,299
Growth %		48	50	35	(0)	18	10	17	16	25
Contribution %	23	23	24	26	24	25	25	26	27	28
North	162	239	379	415	406	515	556	618	643	794
Growth %		47	59	9	(2)	27	8	11	4	24
Contribution %	19	19	21	18	16	18	18	18	17	17
Central	87	131	174	216	267	261	290	306	353	443
Growth %		51	33	24	24	(2)	11	6	15	25
Contribution %	10	10	10	9	11	9	9	9	9	10
East	79	112	153	203	206	234	258	255	277	335
Growth %		42	37	33	2	13	10	(1)	9	21
Contribution %	9	9	8	9	8	8	8	7	7	7
North East	10	18	26	28	33	35	44	43	52	49
Growth %		83	45	9	17	7	25	(1)	20	(6)
Contribution %	1	1	1	1	1	1	1	1	1	1
Total	852	1,268	1,822	2,289	2,502	2,848	3,063	3,459	3,791	4,647
Growth %		49	44	26	9	14	8	13	10	23

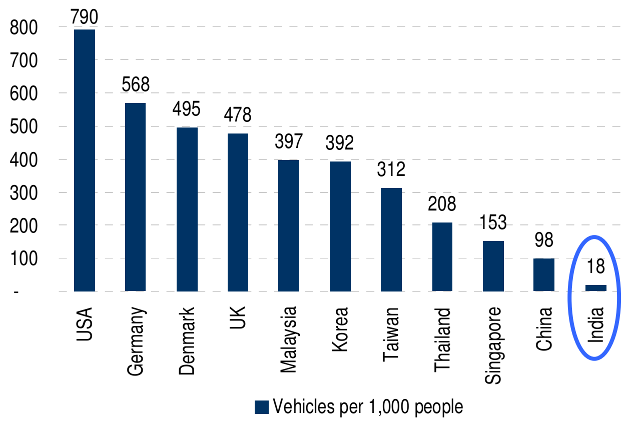
Source: RBI, Anand Rathi Research

Vehicle Finance

India's vehicle penetration with both nominal and real GDP per capita shows ~100% correlation

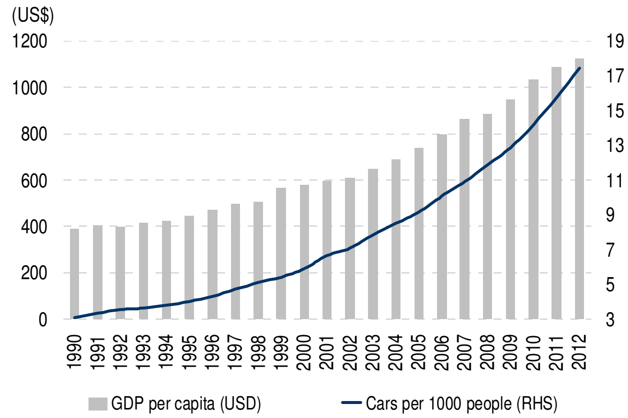
Riding the economic-recovery cycle. The vehicle loan-to-GDP ratio in India is a low 1.3%. Vehicle loans evidenced a healthy 14% CAGR over FY08-FY14 and we expect this to come at a firm 15-18% over the next four years. This would drive an increase in the number of cars per 1,000 population to ~30 by 2018, along with a shift to the higher-value C&D segment (mid-size, premium and luxury cars). Of the countries in Fig 70, India has the lowest car penetration, about 18 per 1,000 population (2013). The highest is the US at nearly 790 per 1,000 population, while India's peer, China, has 98 per 1,000 population. India's vehicle penetration with both, nominal and real, GDP per capita shows a correlation of nearly 1.0 at a secular uptrend.

Fig 70 – India: cars per 1,000 people the lowest of its peers



Source: OICA, Anand Rathi Research

Fig 71 – India: cars per 1,000 with real GDP per capita

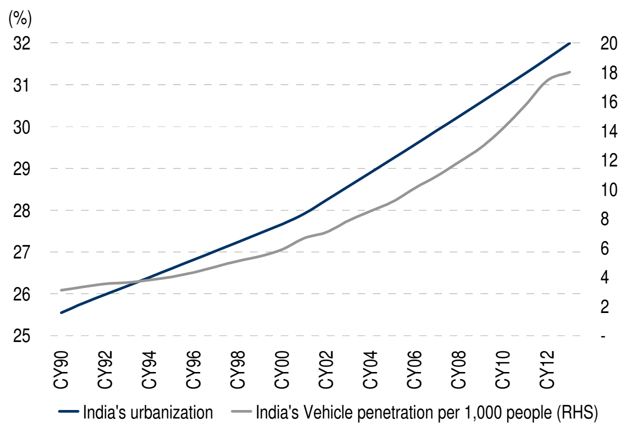


Source: SIAM, World Bank, CSO, Anand Rathi Research

We expect urbanisation to go to 34% and vehicle penetration to rise to 30 per 1,000 people by 2018

Urbanisation and vehicle penetration go hand-in-hand. India's vehicle penetration is likely to increase over FY15-18 as urbanisation rises. We expect urbanisation in India to go up by ~200bps over FY15-18, with vehicle penetration of 1.7x during that period. We have seen a strong correlation between urbanisation and vehicles per 1,000 people.

Fig 72 – Trend in urbanisation and vehicles per 1,000 people



Source: World Bank, CEIC, Anand Rathi Research

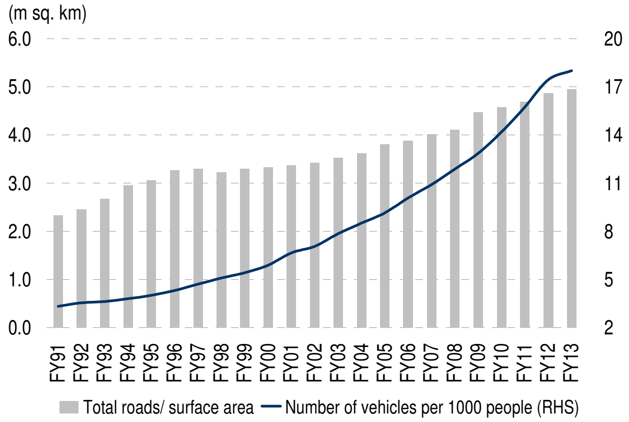
An evident correlation exists between road length/density and vehicle sales/penetration. As seen with India, Korea and China over 1960-2013, road density has an 0.85+ correlation with vehicle sales (passenger cars

85%+ correlation between road density/length of roads with vehicle sales

and commercial vehicles) and, thereby, penetration levels. At present, India's penetration level of 18 vehicles per 1,000 people and five vehicles per kilometre of roads is the lowest of the countries above. With the development of roads/road density, we expect vehicle sales/penetration to rise. This in turn supports our view of an increase in auto demand over the medium term. In some Asian economies, housing and vehicle penetration has deepened disproportionately after urbanisation touched 35-40%. For China, urbanisation rose from 30% in 1993 to 33% in 1997, coinciding with about a twofold increase in vehicle penetration.

India's car penetration levels have been supported by road density; a 96% correlation over 1990-2013

Fig 73 – Roads/ surface area (sq km) vs. vehicles per 1,000 people in India



Source: NHAI, SIAM, Census, Anand Rathi Research

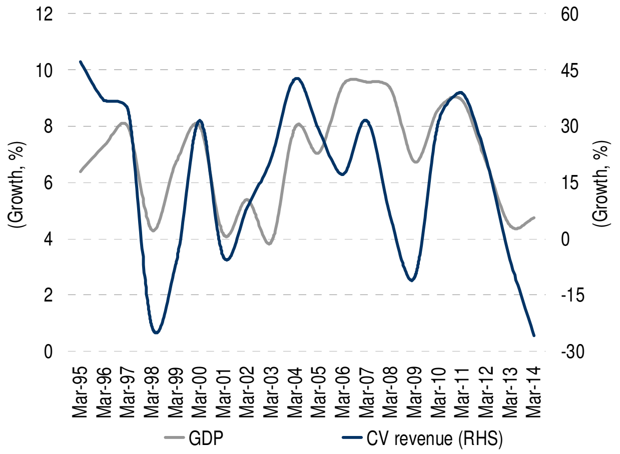
Fig 74 – Characteristics of auto lending

	PSU bank	Pvt banks	NBFCs	2W
Customer segment	Salaried, Urban	Salaried, Urban	Self-Employed/Rural	Mass
Lending rate (%)	10.5—11.5	11—12.5	13—14	18—20
Lending rate type	Fixed	Fixed	Fixed	Fixed
Processing fees (%)	0.1—0.5	1	1	2
LTV (%)	75—85	75—95	70	70—80
Ticket Size (₹)			0.2m—1m	40,000
Avg. tenure (years)			3—4	2
Sourcing	Dealers, DSAs	Dealers, DSAs	Dealers, DSAs, own sourcing	Dealers
Dealers' commission		0.5—1.5%		

Source: Companies, Anand Rathi Research.

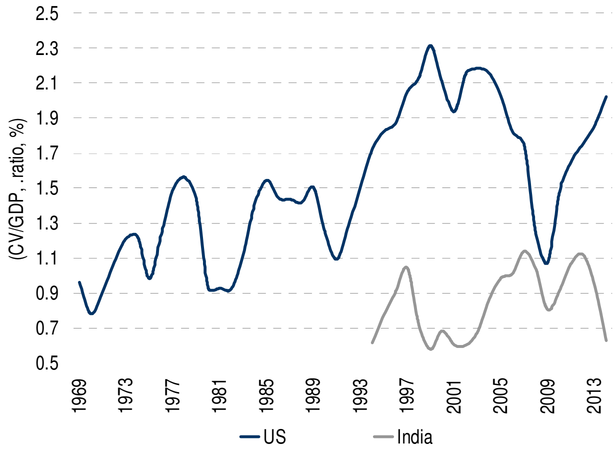
We find a correlation of 0.57 between GDP growth and CV revenues in the Indian economy (Fig 75). In the US, we find a similar relationship, the correlation is 0.68. We thus expect a 15% CAGR in CV revenue as the economy picks up momentum. When we look at the CV/GDP percentage in both the countries, we note an interesting trend. The CV/GDP ratio in India over the last decade resembles the 1983-1992 period in the US (Fig 76). In India, this percentage (1.14%) peaked out in FY07, when GDP growth was high, but is low now, also below the long-term average of 0.84%. Even in the US, this percentage, after touching a high of 2.31% in 1999 slipped in the aftermath of the financial crisis; it has been improving since 2009. If this mirroring effect is to continue in future, India's CV/GDP may rise to the 2%+ zone in the next couple of decades, which augurs well for vehicle financing.

Fig 75 – Strong correlation between GDP and CV revenues



Source: CSO, SIAM

Fig 76 – Indian trends are similar to those in the US of 1970s



Source: BEA, CSO, Anand Rathi Research

Fig 77 – Profitability across CV lending (%)

As % of assets	New CVs - large fleet	New CVs - small fleet	Used CVs
Interest income	12.5	16.0	18.5
Borrowing costs	8.3	9.9	10.8
NIMs	4.2	6.1	7.7
Processing fees	0.5	0.5	0.5
Operating expenses	1.5	2.1	2.3
Credit cost	0.6	1.0	1.8
PBT	2.6	3.5	4.1
Tax	0.9	1.2	1.4
RoA	1.8	2.3	2.7

Source: Companies, Anand Rathi Research.

Other retail loans

Cards

Banks have curtailed the number of DSAs and have been largely cross-selling their products to own customers

Outstandings to rise. The credit-card industry saw intense competition in the previous cycle of FY05-09. Banks, to garner incremental market share, increasingly used direct selling agents (DSAs) and relaxed card-issuance standards, leading to a sharp increase in number of cards issued over FY05-06. However, the ethos of the industry has since changed. The economic downturn and wilful defaults in 2009 led to great losses for card issuers, compelling many NBFCs and banks to quit the segment. The credit-card market is now dominated by private banks and a few public-sector ones. Services of credit bureaus such as CIBIL have gained prominence, deterring wilful default. To keep credit losses in check, banks have curtailed the use of DSAs and have largely been cross-selling products to their own customers using their branch networks. Over FY14-18, we expect a 15% CAGR in the number of credit cards issued. Rising disposal incomes and greater acceptability of credit cards would lead to a 30% CAGR in average spend over FY14-18. Overall, we expect credit card outstandings to increase 20% over FY15-18.

Fig 78 – Card penetration is low

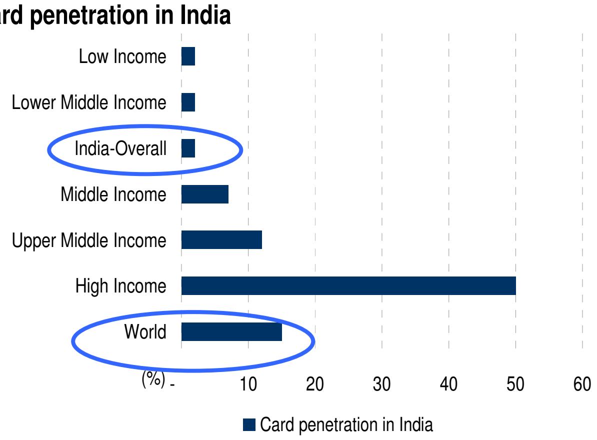
	No. of credit cards (m)	Growth	No. of transactions	Growth	Amount of transaction	Growth		Penetration		Credit card Loans Outstanding	Avg. bal. per card
		(%)		(%)	(₹ bn)	(%)	Savings Account (%)	Credit Cards (%)	Debit Cards (%)	(₹ bn)	(₹)
2004	-		100		177		-	-	-	62	-
2005	-		129	29	257	45	-	-	-	64	-
2006	17		156	21	339	32	31	1.6	45.6	91	5,243
2007	23	33	170	9	414	22	33	2	6.6	133	5,760
2008	28	19	228	35	580	40	37	2.4	8.9	274	9,959
2009	25	-10	260	14	654	13	42	2.1	11.8	280	11,336
2010	18	-26	234	-10	618	-5	48	1.6	15.5	201	10,990
2011	18	-2	265	13	755	22	52	1.5	19.1	181	10,032
2012	18	-2	320	21	966	28	58	1.5	23.8	204	11,578
2013	20	11	397	24	1230	27	67	1.6	26.9	249	12,740
2014	19	-2	509	28	1540	25		1.5	31.4	249	12,958
CAGR			**17**		**20.7**						

Source: RBI, Anand Rathi Research

Credit card penetration in India is low at 2% compared to the world average of 15%

India has ~19m credit cards. Penetration, though, is low at just ~2%, vs. the ~15% global average. However, penetration in the high-income group is much higher than that in the middle-income to low-income groups, where it is an abysmal ~2%.

Fig 79 – Card penetration in India



Source: Company, Anand Rathi Research

Focus on secured lending led to the decline in number of credit cards

After the retail asset quality cycle of FY08-10, banks have been cautious in expanding their un-secured consumer loan portfolios. The number of credit cards during the cycle declined sharply and has not really grown over the past five years. Some of it is also on account of banks continuously weeding out non-operative cards. Credit card volumes in contrast have been growing at a robust 26% CAGR over FY10-14 and are likely to maintain the robust pace on the back of a shift from cash and check payments to credit cards and electronic modes of payment.

SME / LAP / MSME

Fig 80 – Characteristics of SME lending

	CC / WC	Long-term loans secured by business assets	LAP
Customer segment	Small businesses	Small businesses with a good track record of a few years	Business owners with self-occupied residential property
Secured/unsecured	Unsecured (sometimes secured by plant and property)	Secured (by plant and machinery and/or promoter property). Detailed cash-flow analysis of the underlying business usually undertaken	Secured by the above mentioned property. Cash-flow checks on underlying business not so critical
Lending rate %	11—14	13—16	12—14
Lending rate type	Fixed	Fixed	Fixed
LTV	NA	50—65%	40—50%
Ticket Size (₹)	0.5m--50m	1m—20m	2.5m—20m
Average tenure (years)	<1	5--8	7—12
Sourcing	DSAs	DSAs, CAs	DSAs, CAs

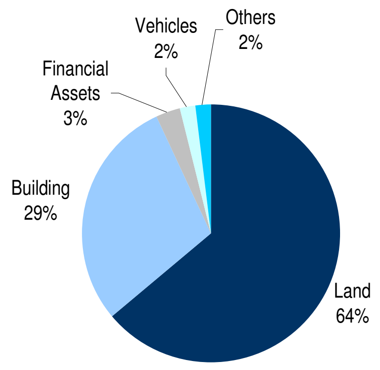
Source: Company, Anand Rathi Research

90%+ of all assets owned by Indian households is real estate related

Momentum to persist. NSSO data show that the largest asset by value owned by Indian households continues to be real-estate related (90%+ of all assets owned). In recent quarters, one type of small business loan, loans against property (LAP), has become popular. Here, loans are extended to promoters of small businesses against the promoters' own property (usually the self-occupied residential property). These are also called home equity loans.

LAP to be the growth driver in the SME segment

Fig 81 – Real estate accounts for over 90% of assets of Indian households (2013)



Source: NSSO, Anand Rathi Research

Profitability: Could come under pressure in LAP. In general, the profitability in small-business lending is higher than in the other large retail lending segment, home loans. Competition in the LAP sub-segment is rising, leading to NIM compression—returns here could be approaching those of home loans. Rising competition could either lead to compression in yields or an increase in LTV (ie, assumption of more risk).

RoAs are high in the non-LAP related SME lending compared to LAP-related

However, non-LAP business loans (secured by underlying cash flows, receivables, plant, machinery and inventory that has been funded), which requires understanding of a borrower's business, are seeing comparatively benign competition.

Fig 82 – Profitability profile in SME lending

As % of assets	LAP	Business Loans
Interest income	13.0	14.0
Interest expense	9.0	9.0
NII	4.0	5.0
Fee income	0.1	0.1
Opex	0.3	0.5
Credit losses	0.3	0.5
Pre-tax RoA	3.6	4.1
Tax	1.2	1.4
Post-tax RoA	2.4	2.7

Source: Company, Anand Rathi Research.

Gold loans

Fig 83 – Characteristics of gold lending

	Banks	NBFCs
Customer segment	Mass segment, with gold jewellery available to be pledged	Mass segment, with gold jewellery available to be pledged
Lending rate (%)	12—15	18—22
Lending rate type	Fixed	Fixed
LTV (%)	60	70
Ticket size (₹)	80,000—100,000	40,000
Average tenure (months)	3—6	3—6
Sourcing	Branch walk-ins	Branch walk-ins

Source: Company, Anand Rathi Research.

Gold-loan disbursement have started showing signs of a pick-up

Treading the growth path again. The gold financing sub-segment seems to be stabilising after a period of turmoil. Growth should return gradually as asset quality and profitability improve. Gold-loan disbursement has started increasing. With stable gold prices, we believe banks would start focusing on this sub-segment for growth as returns on gold loans are some of the highest for banks. Both Federal Bank and South Indian Bank have ~8% of their advances in the form of gold loans. We believe these would be the best mid-cap banks for recovery in gold loans.

Gold loans offer one of the highest RoAs in the retail segment

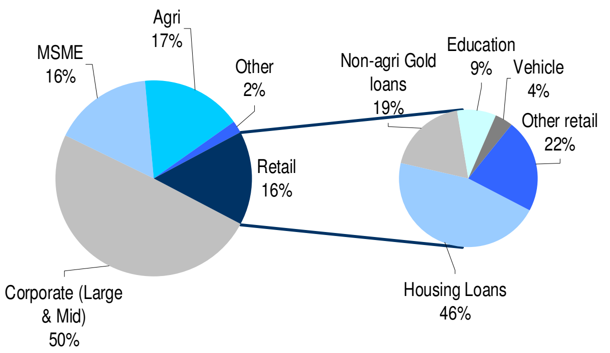
Fig 84 – Profitability in gold lending

As % of assets	Banks	NBFCs
Interest income	15.0	20.0
Interest expense	8.2	9.9
NIM	6.8	10.1
Opex	3.0	5.0
Credit losses	0.1	0.1
Pre-tax RoA	3.7	5.0
Tax	1.2	1.7
Post-tax RoA	2.5	3.4

Source: Company, Anand Rathi Research.

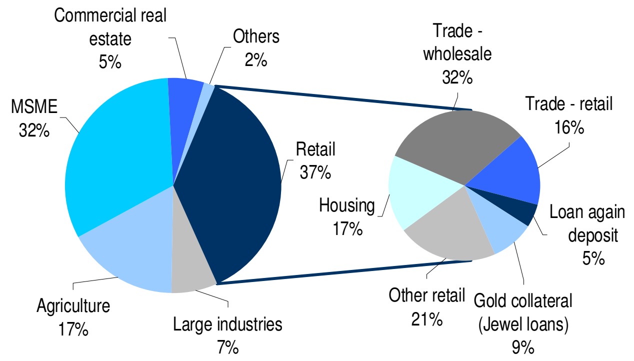
Break-up of retail advances of banks

Fig 85 – Andhra Bank



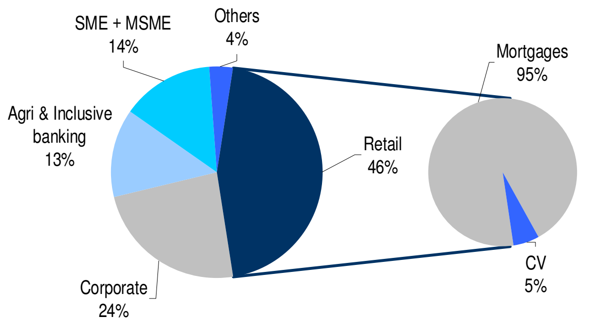
Source: Company, Anand Rathi Research

Fig 86 – City Union Bank



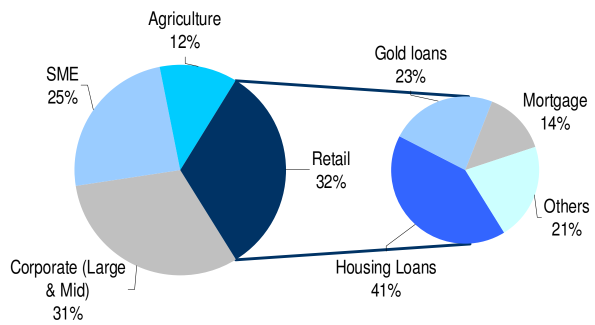
Source: Company, Anand Rathi Research

Fig 87 – DCB Bank



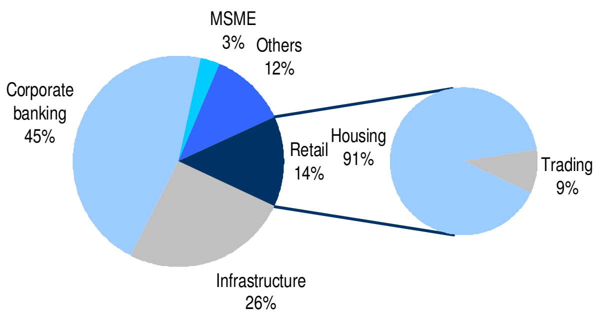
Source: Company, Anand Rathi Research

Fig 88 – Federal Bank



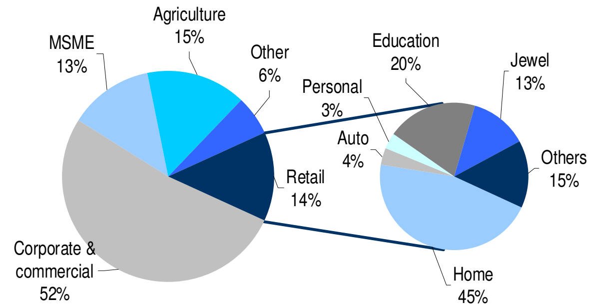
Source: Company, Anand Rathi Research

Fig 89 – IDBI Bank



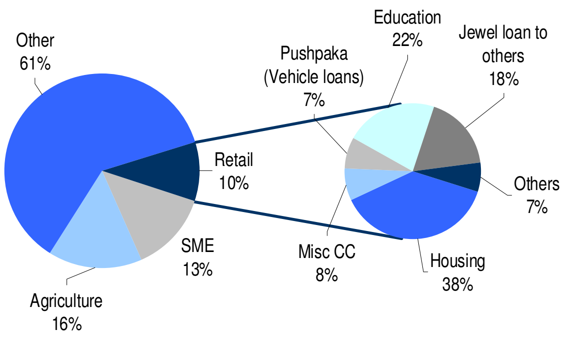
Source: Company, Anand Rathi Research

Fig 90 – Indian Bank



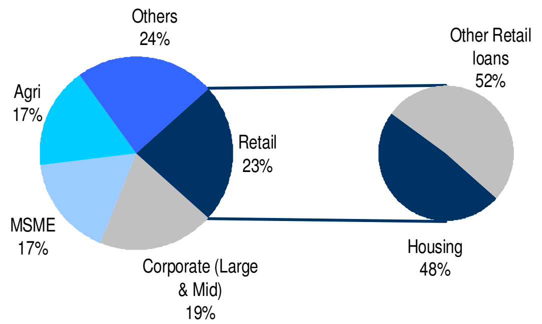
Source: Company, Anand Rathi Research

Fig 91 – Indian Overseas Bank



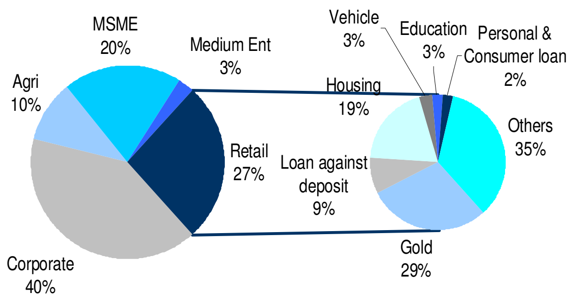
Source: Company, Anand Rathi Research

Fig 92 – Karnataka Bank



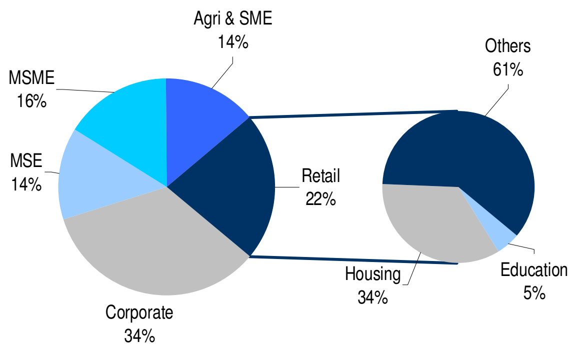
Source: Company, Anand Rathi Research

Fig 93 – South Indian Bank



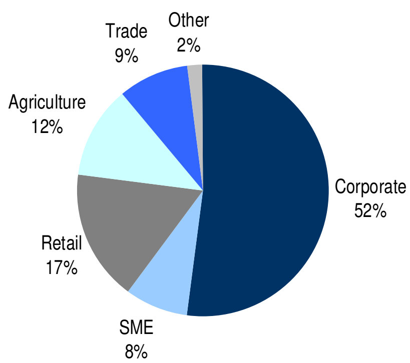
Source: Company, Anand Rathi Research

Fig 94 – Vijaya Bank



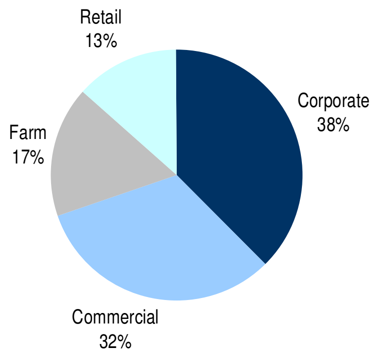
Source: Company, Anand Rathi Research

Fig 95 – Jammu and Kashmir Bank



Source: Company, Anand Rathi Research

Fig 96 – Karur Vysya Bank



Source: Company, Anand Rathi Research

Valuations

- We have used the single-stage Gordon growth model to arrive at our P/ABV multiple (RoE-g/CoE-g), ie, (P/ABV) = (RoE-g/CoE-g), where g = perpetual growth rate, CoE = cost of equity, RoE = normalised return on equity. We have explained the assumptions and the derivation of our target price in the table below.
- Our assumptions for normalised RoE are based on what banks can sustainably generate for the long term, considering a steady-state core tier-1 ratio of 9% and risk weightings based on the average loan profile.
- Our risk-free rate assumption is 7.0.

Fig 97 – Assumptions and price target calculations

% of average assets	CUB	DCBB	FB	JKBK	KBL	KVB	SIB	ANDB	IDBI	INBK	IOB	VJYBK
Net interest income	3.4	3.8	3.3	3.6	2.7	3.0	2.8	2.7	2.1	2.7	2.3	2.4
Total non-interest income	1.6	1.2	1.0	0.5	1.0	1.1	0.8	0.7	0.9	0.8	0.8	0.7
Operating income	5.0	4.9	4.3	4.1	3.7	4.1	3.5	3.4	3.0	3.5	3.1	3.1
Operating costs	2.0	2.3	1.7	1.7	1.9	1.9	1.7	1.4	1.2	1.5	1.5	1.4
Pre-provision operating profit	3.0	2.6	2.6	2.4	1.9	2.3	1.8	2.0	1.8	2.0	1.6	1.7
Total provisions	0.9	0.4	0.3	0.5	0.5	0.3	0.3	1.0	0.9	0.7	0.8	0.6
Profit before taxes	2.2	2.3	2.3	2.0	1.4	1.9	1.5	1.0	0.9	1.3	0.8	1.1
RoAA	1.6	1.6	1.6	1.4	1.0	1.4	1.1	0.7	0.7	0.9	0.6	0.9
RoAE	21.6	20.0	19.2	18.5	15.2	21.0	17.2	13.1	10.4	12.6	9.9	15.3
Price target calculations												
Risk-free rate (%)	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Risk premium (%)	6.0	5.5	6.0	7.5	7.0	6.0	7.0	6.5	6.0	6.5	7.0	7.0
Cost of equity (%)	14.2	13.4	14.2	18.3	16.4	14.6	16.8	14.8	13.6	14.2	15.4	14.9
Growth (%)	7.0	7.5	6.0	5.5	6.0	6.0	5.5	6.0	1.0	5.5	3.3	5.5
Target P/ABV (x)	2.0	2.1	1.6	1.0	0.9	1.8	1.0	0.8	0.7	0.8	0.5	1.0
Adj. BVPS, FY17e (₹)	55	71	109	127	181	393	31	106	101	273	79	63
Price target (₹)	110	150	175	130	160	690	32	85	75	225	43	65

*Source: Anand Rathi Research (Note: * Prices as of 6th Apr'15)*

For public-sector banks, we derive comfort from the fact that the government would pump in capital. This can be clearly seen in the past 7-8 years when it infused capital in these banks when required.

Fig 98 – Valuation table

Bank	Ticker	Price	M Cap	Target	Upside / (Downside)	P / ABV (x)		Target P / ABV (x)		PE (x)		ROE (%)	
		(₹)	(₹ bn)	(₹)	%	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e
Private Banks													
City Union Bank	CUB IN	97	58.6	110	13.6	2.0	1.8	2.3	2.0	12.3	10.2	16	17
DCB Bank	DCBB IN	114	32.2	150	32.0	1.9	1.6	2.5	2.1	14.6	10.2	13	16
Federal Bank	FB IN	130	114.3	175	34.4	1.4	1.2	1.8	1.6	9.8	8.1	14	15
JK Bank	JKBK IN	103	47.8	130	26.2	0.9	0.8	1.2	1.0	5.3	4.5	14	15
Karnataka Bank	KBL IN	127	24.1	160	26.4	0.8	0.7	1.0	0.9	4.8	4.2	14	14
Karur Vysya Bank	KVB IN	547	66.3	690	26.2	1.6	1.4	2.0	1.8	10.7	8.3	14	17
South Indian Bank	SIB IN	26	34.8	32	23.8	0.9	0.8	1.2	1.0	6.8	5.2	13	16
Public Sector Banks													
Andhra Bank	ANDB IN	79	48.6	85	7.1	0.9	0.8	0.9	0.8	5.4	3.9	9	12
IDBI Bank	IDBI IN	72	116.7	75	4.1	0.7	0.7	0.7	0.7	9.3	6.9	5	6
Indian Bank	INBK IN	170	82.2	225	32.5	0.7	0.6	0.9	0.8	6.1	5.0	9	10
Indian Overseas Bank	IOB IN	43	52.9	43	1.2	0.6	0.5	0.6	0.5	13.4	6.1	2	5
Vijaya Bank	VJYBK IN	47	40.1	65	38.4	0.8	0.7	1.1	1.0	5.8	4.5	10	12

Source: Anand Rathi Research

Company Section

ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

Andhra Bank

Little growth, expensive valuations; maintaining a Hold

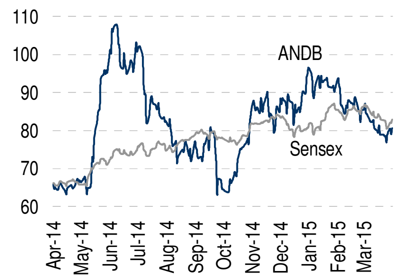
Rating: **Hold**
Target Price: ₹85
Share Price: ₹79

Key data	ANDB IN / ADBK.BO
52-week high/low	₹110 / ₹61
Sensex/Nifty	28885 / 8778
3-m average volume	US$4.5m
Market cap	₹48bn / US$0.8bn
Shares outstanding	602.8m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	60.1	60.1	60.1
- of which, Pledged	-	-	-
Free Float	39.9	39.9	39.9
- Foreign Institutions	7.6	7.4	10.8
- Domestic Institutions	16.3	14.7	12.5
- Public	16.0	17.8	16.6

Estimate revisions (%)	FY16e	FY17e
NII	(2.7)	(2.0)
Provisions	(1.1)	(8.6)
PAT	(11.5)	0.6
ROE (bps)	(121)	(8)

Relative price performance



Source: Bloomberg

Its deteriorating asset quality, and shrinking CD and CASA ratios have led to Andhra Bank's RoE and RoA sliding sharply in the past two years. Though the ratios have slightly improved (seen in the quarterly performance), we believe valuations are higher than its peers'. We maintain our Hold rating, with a target price of ₹85. The stock trades at 0.8x FY17e ABV and, at our target price, would trade at 0.85x FY17e ABV.

Stressed loans, at 15.5%, among the highest. Stressed loans were 15.5% (9.5% restructured, 6% gross NPA). Slippage from the corporate sector has come very high in the past 2-3 years, leading to the rise in corporate sector NPA to 7.4%. While stressed loans have stabilised in Q3 FY15, consistency and improvement in asset quality would be key to watch for.

Exposure to infrastructure, especially power, the highest of its peers. Exposure to infrastructure was 17% of advances, with 11% to the power sector. We believe the bank's loan CAGR would come at a slow 14% over FY14-17, compared to 24% over FY08-13, because of the deceleration in lending to corporates. The bank is expected to keep its sharper focus on high-yielding retail and SME loans. Also, low-cost CASA (current and savings account) deposits are expected to be around the 25% mark and gradually increase to ~27% by FY17, compared to over 34% in the past. CASA of 25%+ is expected to aid NIM to hold above the 2.5% mark through FY17.

Valuation. We retain our Hold recommendation chiefly because of the high valuations. The stock trades at 0.8x FY17e ABV. We have a target of ₹85 with a target multiple of 0.85x FY17e ABV. We expect an RoA and RoE in FY17 of 0.6% and 11.6%, respectively. **Risks.** Sharp decrease in loan defaults, capital infusion by the government at a favourable valuation.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	37,570	37,373	44,113	48,600	57,734
Non-interest income (₹ m)	10,474	13,328	13,058	13,799	14,705
Operating expenses (₹ m)	20,372	23,099	26,584	28,391	32,598
Cost-Income (%)	42.4	45.6	46.5	45.5	45.0
Pre-provisioning profit (₹ m)	27,672	27,602	30,586	34,007	39,842
Provisions (₹ m)	9,962	20,265	20,753	21,791	22,881
PBT (₹ m)	17,711	7,337	9,833	12,216	16,961
Tax (₹ m)	5,182	2,312	2,753	3,421	4,749
PAT (₹ m)	12,529	5,026	7,080	8,796	12,212
EPS (₹)	23.0	7.4	11.7	14.6	20.3

Source: Company, Anand Rathi Research

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

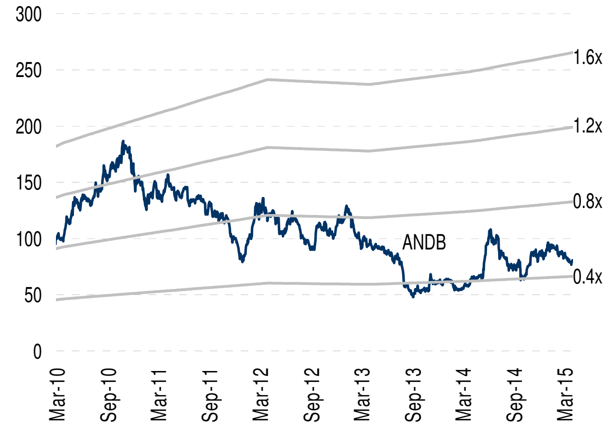
Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	37,570	37,373	44,113	48,600	57,734
NII growth (%)	(0.1)	(0.5)	18.0	10.2	18.8
Non-interest inc.	10,474	13,328	13,058	13,799	14,705
Total income	48,044	50,702	57,171	62,399	72,440
Total income growth (%)	4.0	5.5	12.8	9.1	16.1
Oper. expenses	20,372	23,099	26,584	28,391	32,598
Operating profit	27,672	27,602	30,586	34,007	39,842
Operating profit growth (%)	-1.7	-0.3	10.8	11.2	17.2
Provisions	9,962	20,265	20,753	21,791	22,881
PBT	17,711	7,337	9,833	12,216	16,961
Tax	5,182	2,312	2,753	3,421	4,749
PAT	12,529	5,026	7,080	8,796	12,212
PAT growth (%)	(4.1)	(66.2)	62.5	24.2	38.8
FDEPS (₹/sh)	23.0	7.4	11.7	14.6	20.3
DPS (₹/sh)	5.0	1.1	2.5	3.2	4.4

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	5,596	5,896	6,028	6,028	6,028
Reserves & surplus	78,816	81,478	88,162	94,725	103,836
Deposits	1,237,956	1,418,451	1,470,262	1,696,792	1,975,702
Borrowings	140,622	167,584	184,342	202,776	223,054
Minority interests	-	-	-	-	-
Total Liabilities	1,462,989	1,673,409	1,748,795	2,000,321	2,308,620
Advances	983,733	1,076,442	1,205,615	1,374,401	1,580,561
Investments	376,324	453,566	426,376	475,102	533,439
Cash & Bank Bal	64,059	94,406	66,089	92,809	127,669
Fixed & Other Assets	38,874	48,995	50,715	58,009	66,950
Total Assets	1,462,989	1,673,409	1,748,795	2,000,321	2,308,620
No. of shares (m)	560	590	603	603	603
Deposits growth (%)	17.0	14.6	3.7	15.4	16.4
Advances growth (%)	18.2	9.4	12.0	14.0	15.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value

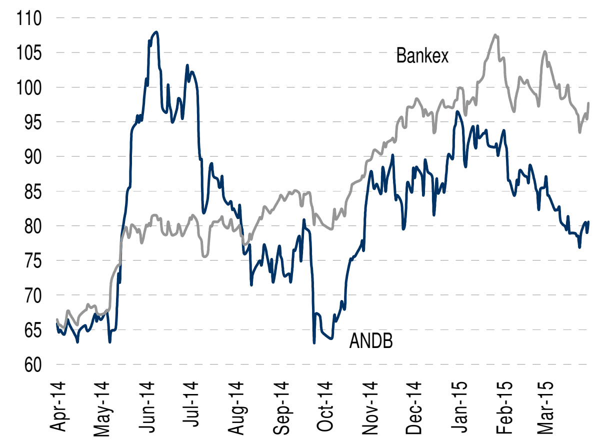
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	2.8	2.5	2.7	2.7	2.8
Other inc. / Total inc.	21.8	26.3	22.8	22.1	20.3
Cost-Income	42.4	45.6	46.5	45.5	45.0
Provision coverage	35.1	42.9	42.9	41.9	41.8
Dividend Payout	21.7	14.9	21.7	21.7	21.7
Credit-Deposit	79.5	75.9	82.0	81.0	80.0
Investment-Deposit	30.4	32.0	29.0	28.0	27.0
Gross NPA	3.8	5.4	6.0	5.3	4.6
Net NPA	2.4	3.1	3.4	3.1	2.7
BV (₹)	150.8	142.0	150.2	161.1	176.2
Adj. BV (₹)	101.4	85.4	81.6	91.5	105.6
CAR	11.8	10.9	11.3	10.7	10.2
- Tier 1	8.5	8.2	8.5	8.0	7.6
RoE	16.2	5.1	7.8	9.0	11.6
RoA	1.0	0.3	0.4	0.5	0.6

Source: Company, Anand Rathi Research

Fig 6 – Andhra Bank vs. Bankex



Source: Bloomberg, Anand Rathi Research

ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

City Union Bank

Rich valuations; Hold

Rating: **Hold**

Target Price: ₹110

Share Price: ₹97

CUB is a south India-based private-sector bank with more than 90% of its branches in Southern India. One of the distinguishing features of CUB is its focus on SME/MSME, which accounts for ~50% of its advances book. The bank capitalises on knowledge of its niche market of small businesses, SME and traders, primarily based in south India. Ahead, it maintains that its focus would continue to be the SME/MSME segment. We retain our Hold rating on account of its premium valuation of 1.8x FY17e ABV.

NIM to persist at over 3%. As ~50% of its advances are SME loans (where yields are high), its NIM has held above 3% for more than a decade now. Further, ~80% of the book is on a floating basis, which reduces the interest-rate risk. We expect margins to continue at healthy levels of ~3.4% over FY15-17.

Lending strategy aiding buoyant asset quality. Secured small-ticket loans have helped the bank maintain its asset quality even during the stressed period of FY12-14. Unsecured loans are only 1% of advances. At least 1x security is maintained for all accounts. Also, restructured advances, at 1.5% of loans, are one of the lowest in the industry. We do not expect any material deviation in asset quality through FY17.

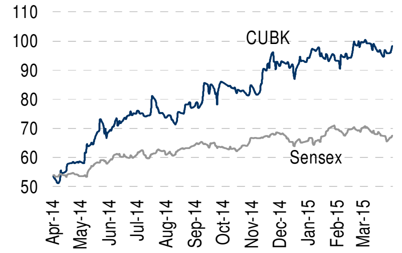
Valuation. While we expect prudent loan growth, stable productivity and robust asset quality to drive a 1.6% RoA over FY16-17, the present valuation (1.8x FY17e ABV) appears to have priced in these factors. The stock already trades at a premium to its peers, though justified by its likely better profitability ahead. Hence, we maintain our Hold rating. We have a target price of ₹110, with a target multiple of 2x FY17e ABV. **Risks.** Downside: More-than-estimated increase in NPA; Upside: Quicker-than-expected business growth.

Key data	CUBK IN / CTBK.BO
52-week high/low	₹103 / ₹51
Sensex/Nifty	28885 / 8778
3-m average volume	US$1.7m
Market cap	₹58bn / US$0.9bn
Shares outstanding	596.6m

Shareholding pattern (%)	Dec '14	Sep '14	Jul'14
Promoters	-	-	-
- of which, Pledged	-	-	-
Free Float	100	100	100
- Foreign Institutions	33.8	33.0	33.4
- Domestic Institutions	10.6	10.6	10.2
- Public	55.6	56.4	56.4

Estimate revisions (%)	FY16e	FY17e
NII	(8.3)	(14.0)
Provisions	19.2	10.4
PAT	(12.7)	(14.7)
ROE (bps)	(230)	(253)

Relative price performance



Source: Bloomberg

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	6,240	7,594	8,531	9,691	11,316
Non-interest income (₹ m)	2,736	3,012	4,236	4,684	5,360
Operating expenses (₹ m)	3,742	4,796	5,605	6,038	6,837
Cost-Income (%)	41.7	45.2	43.9	42.0	41.0
Pre-provisioning profit (₹ m)	5,234	5,810	7,162	8,338	9,839
Provisions (₹ m)	1,204	1,674	2,376	2,613	2,874
PBT (₹ m)	4,030	4,136	4,787	5,724	6,965
Tax (₹ m)	810	665	862	1,030	1,254
PAT (₹ m)	3,220	3,471	3,925	4,694	5,711
EPS (₹)	6.8	6.4	6.7	7.9	9.5

Source: Company, Anand Rathi Research

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	6,240	7,594	8,531	9,691	11,316
NII growth (%)	24.9	21.7	12.3	13.6	16.8
Non-interest inc.	2,736	3,012	4,236	4,684	5,360
Total income	8,976	10,606	12,767	14,375	16,676
Total income growth (%)	27.0	18.2	20.4	12.6	16.0
Oper. expenses	3,742	4,796	5,605	6,038	6,837
Operating profit	5,234	5,810	7,162	8,338	9,839
Operating profit growth (%)	22.6	11.0	23.3	16.4	18.0
Provisions	1,204	1,674	2,376	2,613	2,874
PBT	4,030	4,136	4,787	5,724	6,965
Tax	810	665	862	1,030	1,254
PAT	3,220	3,471	3,925	4,694	5,711
PAT growth (%)	14.9	7.8	13.1	19.6	21.7
FDEPS (₹/sh)	6.8	6.4	6.7	7.9	9.5
DPS (₹/sh)	1.0	1.0	1.1	1.3	1.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	474	543	589	595	601
Reserves & surplus	15,932	19,707	26,298	30,058	34,633
Deposits	203,048	220,169	234,927	266,564	307,776
Borrowings	10,317	9,520	10,472	11,519	12,671
Minority interests	-	-	-	-	-
Total Liabilities	229,771	249,938	272,286	308,736	355,681
Advances	152,461	160,968	173,846	199,923	233,910
Investments	52,668	59,536	62,256	69,307	78,483
Cash & Bank Bal	17,705	21,796	28,016	30,245	32,619
Fixed & Other Assets	6,937	7,638	8,169	9,262	10,670
Total Assets	229,771	249,938	272,286	308,736	355,681
No. of shares (m)	474	543	589	595	601
Deposits growth (%)	24.3	8.4	6.7	13.5	15.5
Advances growth (%)	25.6	5.6	8.0	15.0	17.0

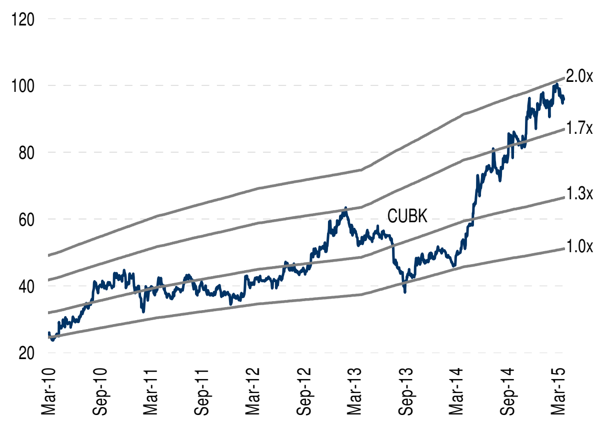
Source: Company, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	3.1	3.3	3.4	3.4	3.5
Other inc. / Total inc.	30.5	28.4	33.2	32.6	32.1
Cost-Income	41.7	45.2	43.9	42.0	41.0
Provision coverage	44.3	32.7	40.3	45.6	51.4
Dividend Payout	14.7	15.6	17.0	17.0	17.0
Credit-Deposit	75.1	73.1	74.0	75.0	76.0
Investment-Deposit	25.9	27.0	26.5	26.0	25.5
Gross NPA	1.1	1.8	2.2	2.1	2.1
Net NPA	0.6	1.2	1.3	1.2	1.0
BV (₹)	34.6	37.3	45.6	51.5	58.6
Adj. BV (₹)	32.5	33.7	41.8	47.6	54.7
CAR	14.0	15.0	15.7	15.7	15.4
- Tier 1	13.3	14.4	15.1	15.1	14.8
RoE	22.3	18.9	16.7	16.3	17.3
RoA	1.6	1.4	1.5	1.6	1.7

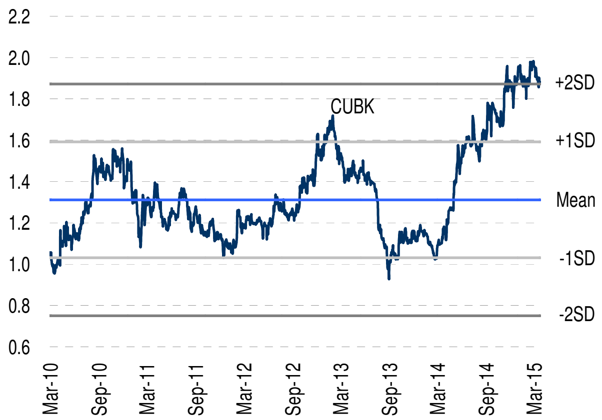
Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



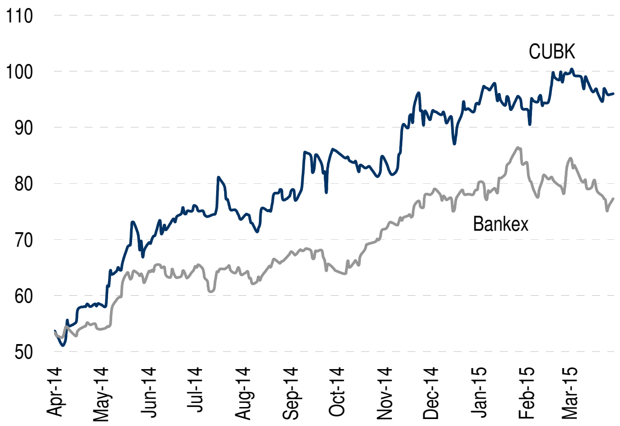
Source: Bloomberg, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



Source: Bloomberg, Anand Rathi Research

Fig 6 – City Union Bank vs. Bankex



Source: Bloomberg

ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

DCB Bank

On a strong footing; Buy

Rating: **Buy**

Target Price: ₹150

Share Price: ₹114

Under its new leadership DCB Bank has undergone a broad-based transformation. Its fundamentals have improved dramatically in the past five years and we believe it is poised to deliver on various operational goals. Business growth ahead of the industry average, robust advances growth, the rise in its CD ratio and stable margins would boost its net interest income, in our view. Healthy asset quality, best-in-class provision coverage, limited restructuring and improving operating efficiency would buoy up its RoE.

Business strategy highly profitable. In the past five years, management has sharpened the focus on secured retail loans and their diversity, while maintaining a huge proportion of retail deposits (80%). This strategy has conferred remarkable results: better credit quality, expanded risk-adjusted NIM, and heightened profitability as well as capital adequacy.

Well-thought-out network expansion to support growth. To compete with larger banks and establish itself, the bank's distribution strategy focuses on tier II-VI cities/towns in Odisha, Madhya Pradesh, Chhattisgarh and Rajasthan. This would propel advances growth in its chosen segments of MSME and agri-business. Branch expansion would also aid CASA growth, with low-cost structures aiding toward quicker breakeven and better productivity.

Asset quality to be buoyant. With its relentless focus on loan quality, continuous monitoring, robust credit appraisal and limited exposure to consortium lending and troubled segments, the bank's asset quality is one of the best in the sector, in our view. We expect this to persist over FY17.

Valuations. We expect improving business growth, better productivity, strong capital adequacy and stable credit cost to support robust profitability over FY15-17. We maintain our Buy. We revise our target to ₹150 and our target multiple to 2.1x FY17e ABV. **Risks.** More-than-expected credit cost; change in management.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	2,844	3,684	4,916	6,577	8,730
Non-interest income (₹ m)	1,170	1,387	1,477	1,869	2,354
Operating expenses (₹ m)	2,753	3,191	3,747	4,476	5,542
Cost-Income (%)	68.6	62.9	58.6	53.0	50.0
Pre-provisioning profit (₹ m)	1,261	1,880	2,646	3,969	5,542
Provisions (₹ m)	240	366	543	685	851
PBT (₹ m)	1,021	1,514	2,103	3,285	4,691
Tax (₹ m)	0	0	315	1,100	1,572
PAT (₹ m)	1,021	1,514	1,788	2,184	3,120
EPS (₹)	4.1	6.0	6.4	7.8	11.1

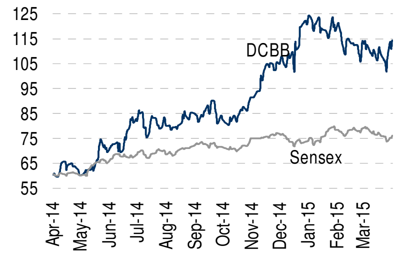
Source: Company, Anand Rathi Research

Key data	DCBB IN / DCBA.BO
52-week high/low	₹127 / ₹58
Sensex/Nifty	28885 / 8778
3-m average volume	US$2.8m
Market cap	₹33bn / US$0.5bn
Shares outstanding	282m

Shareholding pattern (%)	Dec '14	Oct'14	Jun '14
Promoters	16.4	16.4	18.5
- of which, Pledged	-	-	-
Free Float	83.6	83.6	81.5
- Foreign Institutions	15.5	14.5	14.5
- Domestic Institutions	24.3	24.1	14.6
- Public	43.8	44.9	52.5

Estimate revisions (%)	FY16e	FY17e
NII	1.5	2.2
Provisions	(0.0)	(0.0)
PAT	7.6	7.5
ROE (bps)	80	78

Relative price performance



Source: Bloomberg

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

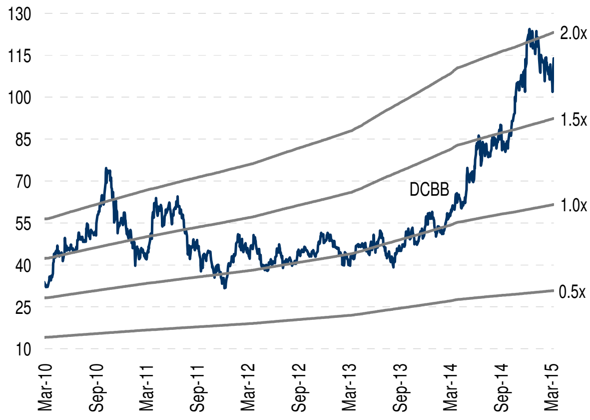
Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	2,844	3,684	4,916	6,577	8,730
NII growth (%)	24.9	29.5	33.4	33.8	32.7
Non-interest inc.	1,170	1,387	1,477	1,869	2,354
Total income	4,014	5,071	6,393	8,446	11,084
Total income growth (%)	22.4	26.3	26.1	32.1	31.2
Oper. expenses	2,753	3,191	3,747	4,476	5,542
Operating profit	1,261	1,880	2,646	3,969	5,542
Operating profit growth (%)	50.5	49.0	40.8	50.0	39.6
Provisions	240	366	543	685	851
PBT	1,021	1,514	2,103	3,285	4,691
Tax	0	0	315	1,100	1,572
PAT	1,021	1,514	1,788	2,184	3,120
PAT growth (%)	85.3	48.3	18.1	22.2	42.8
FDEPS (₹/sh)	4.1	6.0	6.4	7.8	11.1
DPS (₹/sh)	-	-	-	-	-

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



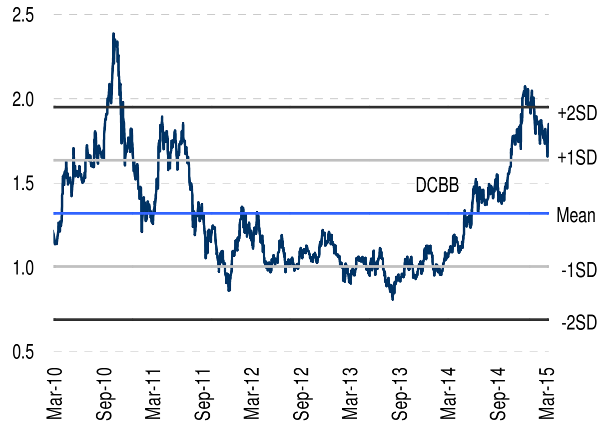
Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	2,501	2,503	2,808	2,808	2,808
Reserves & surplus	7,529	9,036	13,017	15,201	18,321
Deposits	83,638	103,252	127,990	170,017	221,022
Borrowings	19,119	14,440	15,454	16,548	17,729
Minority interests	-	-	-	-	-
Total Liabilities	112,788	129,231	159,269	204,573	259,879
Advances	65,861	81,402	101,752	134,313	174,607
Investments	33,587	36,342	43,517	52,705	62,991
Cash & Bank Bal	8,833	6,896	7,629	9,372	11,885
Fixed & Other Assets	4,508	4,592	6,371	8,183	10,395
Total Assets	112,788	129,231	159,269	204,573	259,879
No. of shares (m)	250	250	281	281	281
Deposits growth (%)	32.0	23.5	24.0	32.8	30.0
Advances growth (%)	24.6	23.6	25.0	32.0	30.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



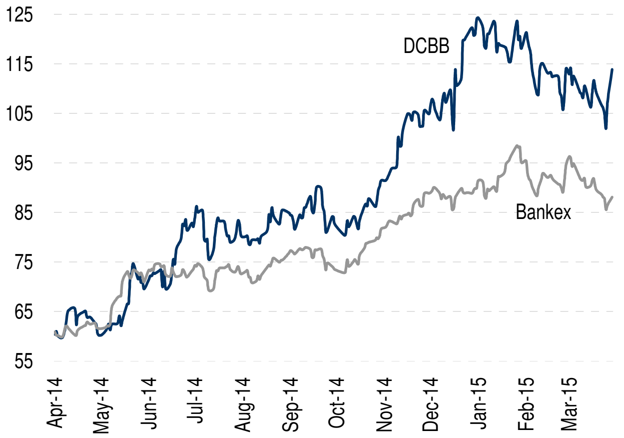
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	3.0	3.2	3.5	3.8	3.9
Other inc. / Total inc.	29.2	27.3	23.1	22.1	21.2
Cost-Income	68.6	62.9	58.6	53.0	50.0
Provision coverage	77.1	46.5	49.9	50.9	52.3
Dividend Payout	-	-	-	-	-
Credit-Deposit	78.7	78.8	79.5	79.0	79.0
Investment-Deposit	40.2	35.2	34.0	31.0	28.5
Gross NPA	3.2	1.7	1.7	1.5	1.3
Net NPA	0.7	0.9	0.9	0.7	0.6
BV (₹)	38.0	44.0	54.5	62.3	73.4
Adj. BV (₹)	38.1	43.1	53.2	60.7	71.5
CAR	13.6	13.7	14.4	13.0	11.8
- Tier 1	12.6	12.9	13.8	12.5	11.3
RoE	10.9	14.0	13.1	12.9	15.9
RoA	1.0	1.3	1.2	1.2	1.3

Source: Company, Anand Rathi Research

Fig 6 – DCB Bank vs. Bankex



Source: Bloomberg, Anand Rathi Research

ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

Federal Bank

Steady improvement; Buy

Rating: **Buy**
Target Price: ₹175
Share Price: ₹130

Federal Bank is a South-based bank with increasing focus on retail and SME lending. After its consolidation in FY14, its new strategy is in place. Higher growth in advances coupled with stable asset quality and strong capital adequacy could lead to higher return ratios through FY17, in our view. We maintain a Buy, with a target price of ₹175.

Consolidation phase behind. On account of the then rough macro-economic conditions, the bank had decided to slow down its loan growth, particularly in the large-corporate segment. With the asset quality issue easing, the management is now aiming at 18-19% credit growth in the next couple of years through a sharper focus on retail and SME lending.

Better asset and deposit mix to aid NIM expansion. The bank is expected to retain its sharper focus on high-yielding retail and SME loans. Also, the low-cost CASA (current and savings account) deposits are expected to hold above the 30% mark and gradually increase to ~31.5% by FY17. This is expected to aid NIM to sustain above the 3.2% mark through FY17.

Consistency in asset quality, a key to re-rating. In the past Federal Bank has seen higher delinquencies. However, given conservative management practices, better underwriting abilities and consolidation of its advances book, its asset quality is improving. It has already experienced in the past few quarters a declining trend in fresh slippages. We expect the situation to improve.

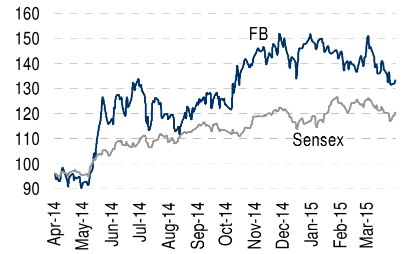
Valuation. Higher growth, better NIM and strong capital adequacy would aid the bank's RoE expansion by FY17 to ~15%. The stock quotes at 1.2x FY17e P/ABV. We maintain a BUY, with a target of ₹175, at which the stock would trade at 1.6x FY17e P/ABV. **Risks.** Higher-than-expected delinquencies and lower-than-expected growth.

Key data	FB IN / FED.BO
52-week high/low	₹154 / ₹87
Sensex/Nifty	28885 / 8778
3-m average volume	US$7.5m
Market cap	₹114bn / US$1.8bn
Shares outstanding	856.0m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	-	-	-
- of which, Pledged	-	-	-
Free Float	100	100	100
- Foreign Institutions	38.9	37.7	38.8
- Domestic Institutions	28.2	27.1	25.5
- Public	32.9	35.3	35.7

Estimate revisions (%)	FY16e	FY17e
NII	(5.2)	(6.8)
Provisions	-	-
PAT	(8.0)	(9.2)
ROE (bps)	(123)	(157)

Relative price performance



Source: Bloomberg

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	19,747	22,286	24,726	28,484	33,578
Non-interest income (₹ m)	6,644	6,938	8,455	9,141	10,028
Operating expenses (₹ m)	11,845	14,421	16,093	18,060	20,059
Cost-Income (%)	44.9	49.3	48.5	48.0	46.0
Pre-provisioning profit (₹ m)	14,546	14,804	17,088	19,565	23,547
Provisions (₹ m)	2,608	2,684	2,892	3,130	3,621
PBT (₹ m)	11,938	12,120	14,196	16,435	19,926
Tax (₹ m)	3,556	3,731	4,401	5,095	6,177
PAT (₹ m)	8,382	8,389	9,796	11,340	13,749
EPS (₹)	9.8	9.8	11.5	13.3	16.1

Source: Company, Anand Rathi Research

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	19,747	22,286	24,726	28,484	33,578
NII growth (%)	1.1	12.9	10.9	15.2	17.9
Non-interest inc.	6,644	6,938	8,455	9,141	10,028
Total income	26,391	29,225	33,181	37,625	43,605
Total income growth (%)	6.2	10.7	13.5	13.4	15.9
Oper. expenses	11,845	14,421	16,093	18,060	20,059
Operating profit	14,546	14,804	17,088	19,565	23,547
Operating profit growth (%)	(3.4)	1.8	15.4	14.5	20.4
Provisions	2,608	2,684	2,892	3,130	3,621
PBT	11,938	12,120	14,196	16,435	19,926
Tax	3,556	3,731	4,401	5,095	6,177
PAT	8,382	8,389	9,796	11,340	13,749
PAT growth (%)	7.9	0.1	16.8	15.8	21.2
FDEPS (₹/sh)	9.8	9.8	11.5	13.3	16.1
DPS (₹/sh)	1.8	2.0	2.2	2.4	2.4

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band

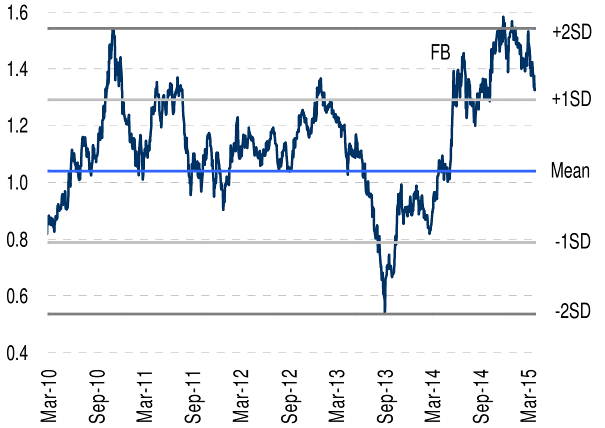
Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	1,711	1,711	1,711	1,711	1,711
Reserves & surplus	61,936	67,795	75,404	84,359	95,722
Deposits	576,149	597,313	676,321	792,738	937,111
Borrowings	70,534	79,123	91,484	106,415	124,575
Minority interests	-	-	-	-	-
Total Liabilities	710,329	745,941	844,919	985,222	1,159,118
Advances	440,967	434,361	503,859	594,553	707,519
Investments	211,546	241,179	253,620	293,313	342,045
Cash & Bank Bal	37,200	45,294	59,558	64,844	71,303
Fixed & Other Assets	20,617	25,108	27,882	32,512	38,251
Total Assets	710,329	745,941	844,919	985,222	1,159,118
No. of shares (m)	855	855	855	855	855
Deposits growth (%)	17.7	3.7	13.2	17.2	18.2
Advances growth (%)	16.8	(1.5)	16.0	18.0	19.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



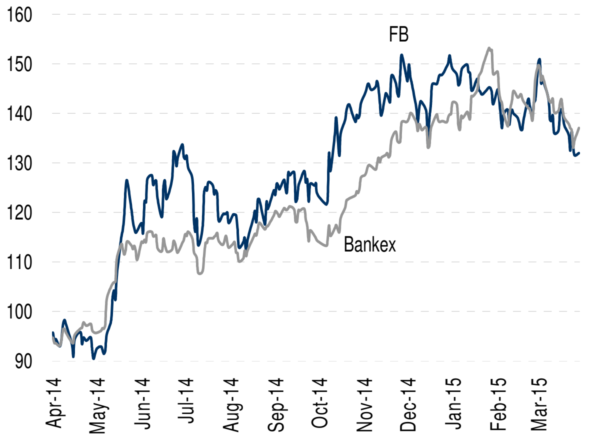
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	3.1	3.2	3.2	3.2	3.2
Other inc. / Total inc.	25.2	23.7	25.5	24.3	23.0
Cost-Income	44.9	49.3	48.5	48.0	46.0
Provision coverage	72.2	70.4	68.3	69.1	68.1
Dividend Payout	18.4	20.4	19.2	18.1	14.9
Credit-Deposit	76.5	72.7	74.5	75.0	75.5
Investment-Deposit	36.7	40.4	37.5	37.0	36.5
Gross NPA	3.5	2.5	2.2	2.2	1.9
Net NPA	1.0	0.7	0.7	0.7	0.6
BV (₹)	74.4	81.2	90.1	100.6	113.9
Adj. BV (₹)	69.4	77.5	86.0	96.0	108.9
CAR	14.7	15.3	14.6	14.0	13.4
- Tier 1	14.1	14.6	13.9	13.3	12.9
RoE	13.9	12.6	13.4	13.9	15.0
RoA	1.3	1.2	1.2	1.2	1.3

Source: Company, Anand Rathi Research

Fig 6 – Federal Bank vs. Bankex



Source: Bloomberg

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India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☑

09 April 2015

IDBI Bank

Rating: **Hold**
Target Price: ₹75
Share Price: ₹72

Asset quality to weigh on stock; upgrading to a Hold

For the past many years, the asset quality of IDBI Bank has been deteriorating. With a high proportion of corporate loans (72%) in total advances, we believe that its asset quality will continue under pressure for the next 9-12 months. By Dec'14 its stressed loans increased to ~15%, from less than 1.5% in FY09. We value the stock at 0.7x FY17e ABV (0.48x FY17e BV) and revise our target price to ₹75.

Asset quality to continue under pressure. The bank's asset quality has been under pressure for the past four years, with gross NPA and restructured advances increasing to, 6% and 9%, respectively, by Dec'14. The stock of stressed assets in Q3 FY15 rose to over 15%, from less than 1.5% in FY09. With the high proportion of corporate (ex-infra) (46%) and infrastructure (26%) loans in its advances portfolio, we believe pressure on asset quality would continue in the medium term.

Value of unlisted investments – a wildcard. The bank has stakes in various listed and unlisted financial institutions. We believe that, in Q4 FY15, it had sold a part of its stake in CARE. This could boost its investment profit for that quarter. We have not taken into our valuation IDBI's stakes (investment) in CARE, NSE, SIDBI, NSDL and ARCIL, etc. Most of these investments are in unlisted entities and the timings of the stake sales are uncertain.

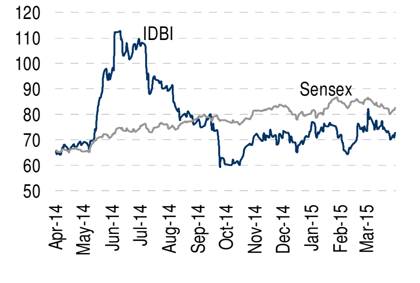
Valuation. While the management is cautious about hiking exposure to the corporate and infrastructure segments, better asset quality would be the key re-rating driver. We value the bank at 0.7x FY17e ABV (0.48x FY17e BV). The stock has risen by just 10% in the past year and has undershot the Bankex by 38%. We upgrade our recommendation from a Sell to a Hold on account of valuations. **Risks.** Upside: Sharp decrease in defaults, faster-than-estimated credit growth.

Key data	IDBI IN / IDBI.BO
52-week high/low	₹117 / ₹58
Sensex/Nifty	28885 / 8778
3-m average volume	US$4.9m
Market cap	₹117bn / US$1.9bn
Shares outstanding	1604m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	76.5	76.5	76.5
- of which, Pledged			
Free Float	23.5	23.5	23.5
- Foreign Institutions	2.9	3.1	3.7
- Domestic Institutions	10.8	10.8	10.9
- Public	9.8	9.6	9.0

Estimate revisions (%)	FY16e	FY17e
NII	(0.0)	-
Provisions	10.6	-
PAT	(39.6)	-
ROE (bps)	(361)	-

Relative price performance



Source: Bloomberg

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	53,731	60,215	60,688	75,224	87,436
Non-interest income (₹ m)	32,195	29,788	35,313	34,093	37,230
Operating expenses (₹ m)	31,344	33,188	47,041	50,286	54,853
Cost-Income (%)	36.5	36.9	49.0	46.0	44.0
Pre-provisioning profit (₹m)	54,583	56,814	48,961	59,031	69,813
Provisions (₹ m)	28,365	39,403	36,000	39,667	43,707
PBT (₹ m)	26,218	17,411	12,961	19,365	26,106
Tax (₹ m)	7,397	6,197	4,601	6,874	9,268
PAT (₹ m)	18,821	11,214	8,360	12,490	16,838
EPS (₹)	14.1	7.0	5.2	7.8	10.5

Source: Company, Anand Rathi Research

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	53,731	60,215	60,688	75,224	87,436
NII growth (%)	18.2	12.1	0.8	24.0	16.2
Non-interest inc.	32,195	29,788	35,313	34,093	37,230
Total income	85,926	90,002	96,001	109,318	124,667
Total income growth (%)	29.1	4.7	6.7	13.9	14.0
Oper. expenses	31,344	33,188	47,041	50,286	54,853
Operating profit	54,583	56,814	48,961	59,031	69,813
Operating profit growth (%)	34.8	4.1	(13.8)	20.6	18.3
Provisions	28,365	39,403	36,000	39,667	43,707
PBT	26,218	17,411	12,961	19,365	26,106
Tax	7,397	6,197	4,601	6,874	9,268
PAT	18,821	11,214	8,360	12,490	16,838
PAT growth (%)	(7.4)	(40.4)	(25.5)	49.4	34.8
FDEPS (₹/sh)	14.1	7.0	5.2	7.8	10.5
DPS (₹/sh)	3.5	1.0	0.7	1.1	1.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	13,327	16,039	16,039	16,039	16,039
Reserves & surplus	199,033	220,354	227,306	237,701	251,715
Deposits	2,271,165	2,357,736	2,431,445	2,808,464	3,175,445
Borrowings	744,160	695,837	765,421	841,963	926,159
Minority interests	-	-	-	-	-
Total Liabilities	3,227,685	3,289,966	3,440,211	3,904,167	4,369,358
Advances	1,963,064	1,976,860	2,066,728	2,415,279	2,762,637
Investments	988,009	1,037,735	1,094,150	1,151,470	1,222,546
Cash & Bank Bal	179,245	168,179	176,127	220,293	253,094
Fixed & Other Assets	97,366	107,192	103,206	117,125	131,081
Total Assets	3,227,685	3,289,966	3,440,211	3,904,167	4,369,358
No. of shares (m)	1,333	1,604	1,604	1,604	1,604
Deposits growth (%)	7.9	3.8	3.1	15.5	13.1
Advances growth (%)	8.7	0.7	4.5	16.9	14.4

Source: Company, Anand Rathi Research

Fig 3 – Key ratios (%)

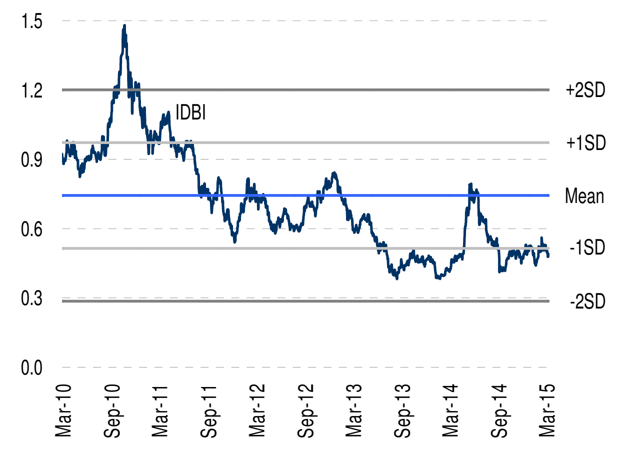
Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	1.8	1.9	1.9	2.1	2.2
Other inc. / Total inc.	37.5	33.1	36.8	31.2	29.9
Cost-Income	36.5	36.9	49.0	46.0	44.0
Provision coverage	51.9	50.8	48.4	48.7	48.3
Dividend Payout	24.8	14.3	14.3	14.3	14.3
Credit-Deposit	86.4	83.8	85.0	86.0	87.0
Investment-Deposit	43.5	44.0	45.0	41.0	38.5
Gross NPA	3.3	5.0	6.0	5.7	5.2
Net NPA	1.6	2.5	3.1	2.9	2.7
BV (₹)	146.1	136.7	141.0	147.5	156.3
Adj. BV (₹)	122.9	106.1	101.4	103.7	109.9
CAR	13.2	11.8	13.0	12.3	12.0
- Tier 1	7.7	7.9	8.5	7.9	7.6
RoE	9.3	5.0	3.5	5.0	6.5
RoA	0.6	0.3	0.2	0.3	0.4

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band

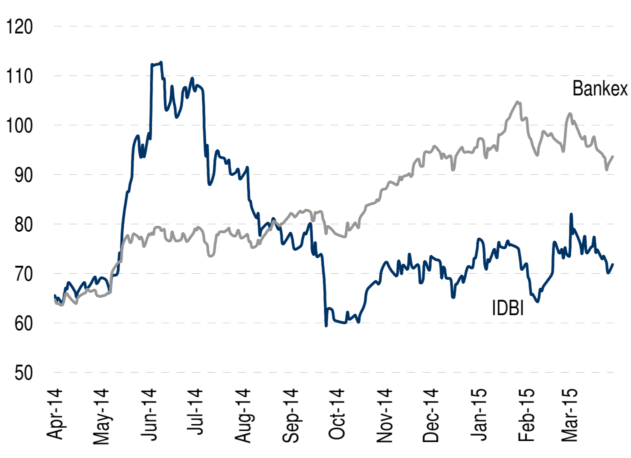
Source: Bloomberg, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



Source: Bloomberg, Anand Rathi Research

Fig 6 – IDBI Bank vs. Bankex



Source: Bloomberg

ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

Indian Bank

Concerns overdone; Buy

Rating: **Buy**

Target Price: ₹225

Share Price: ₹170

Indian Bank is poised to benefit from the growth in the banking sector. Its strong Tier 1, high CASA ratio and ability to generate higher NIM would help it generate a sustainable 13% RoE. While the greater proportion of corporate advances (52%) poses some risks, we are reassured that most of its power sector exposure is to SEBs, while most of its stressed corporate loans have already been slipped / restructured. We maintain a Buy, with a target of ₹225.

Retail/ SME to be management's focus area. Management has guided to a 15% CAGR in advances over FY15-17, focusing on increasing the low-ticket retail and SME loans, while going slow on corporate loans, citing the overall weak economic environment. It believes that, while business sentiment has improved after the formation of the NDA government, on the ground a pick-up in execution has yet to gain momentum.

Asset quality concerns to recede. Management expects the slippage rate to start declining from H2 FY16. While the stock of stressed loans is a high 14.3% (9.8% of restructured loans, 4.5% of gross NPA), we are relieved that SEBs command a high proportion of the restructured loan portfolio. Its high, 57.1%, provisioning cover in Dec'14 and its 10.8% Tier 1 ratio are among the best in PSU banking.

Valuation. While the scrip might continue to languish in the immediate term, the bank has a number of positives to back it, including strong Tier I capital of ~10.8% (incl. ₹2.8bn recently infused by the GoI), FY17e RoA and RoE of, 0.7% and 10%, respectively, after factoring in significant credit costs of 90bps and NIM of 2.8%. We revise our target to ₹225, implying an FY17e P/ABV of 0.8x, relative to the long-term average of P/ABV of 1. At present trading at P/ABV levels of 0.6x, we find the stock attractive at levels of ~₹170. Hence, we maintain a Buy. **Risk.** Below-estimated economic growth could hit loan growth and credit quality.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	45,291	43,604	47,273	53,539	62,207
Non-interest income (₹ m)	12,832	13,717	13,526	15,008	16,212
Operating expenses (₹ m)	27,509	28,315	29,791	32,559	36,073
Cost-Income (%)	47.3	49.4	49.0	47.5	46.0
Pre-provisioning profit (₹ m)	30,613	29,006	31,007	35,987	42,346
Provisions (₹ m)	12,351	14,249	15,441	17,742	20,660
PBT (₹ m)	18,262	14,757	15,566	18,245	21,686
Tax (₹ m)	2,451	3,167	4,359	4,926	5,422
PAT (₹ m)	15,811	11,589	11,208	13,319	16,265
EPS (₹)	36.8	24.9	23.3	27.7	33.9

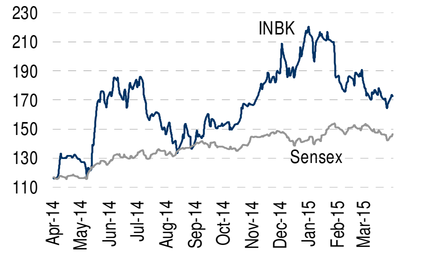
Source: Company, Anand Rathi Research

Key data	INBK IN / INBA.BO
52-week high/low	₹224 / ₹114
Sensex/Nifty	28885 / 8778
3-m average volume	US$0.7m
Market cap	₹79.4bn / US$1.30bn
Shares outstanding	480.2m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	81.5	81.5	81.5
- of which, Pledged	-	-	-
Free Float	18.5	18.5	18.5
- Foreign Institutions	6.0	6.2	6.9
- Domestic Institutions	8.5	8.4	6.5
- Public	3.9	3.9	5.1

Estimate revisions (%)	FY16e	FY17e
NII	(3.7)	(5.5)
Provisions	0.0	(0.0)
PAT	(9.6)	(9.1)
ROE (bps)	(102)	(95)

Relative price performance



Source: Bloomberg

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	45,291	43,604	47,273	53,539	62,207
NII growth (%)	2.5	(3.7)	8.4	13.3	16.2
Non-interest inc.	12,832	13,717	13,526	15,008	16,212
Total income	58,122	57,321	60,799	68,546	78,419
Total income growth (%)	2.9	-1.4	6.1	12.7	14.4
Oper. expenses	27,509	28,315	29,791	32,559	36,073
Operating profit	30,613	29,006	31,007	35,987	42,346
Operating profit growth (%)	-11.6	-5.3	6.9	16.1	17.7
Provisions	12,351	14,249	15,441	17,742	20,660
PBT	18,262	14,757	15,566	18,245	21,686
Tax	2,451	3,167	4,359	4,926	5,422
PAT	15,811	11,589	11,208	13,319	16,265
PAT growth (%)	(9.5)	(26.7)	(3.3)	18.8	22.1
FDEPS (₹/sh)	36.8	24.9	23.3	27.7	33.9
DPS (₹/sh)	6.5	4.2	3.9	4.7	5.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	4,298	4,648	4,803	4,803	4,803
Reserves & surplus	4000	0	0	0	0
Deposits	111,427	134,062	145,312	155,613	168,281
Borrowings	1,419,802	1,622,748	1,579,775	1,845,967	2,196,227
Minority interests	88,700	111,808	122,989	135,288	148,817
Total Liabilities	1,628,226	1,873,267	1,852,879	2,141,671	2,518,128
Advances	1,056,425	1,222,090	1,295,415	1,476,773	1,713,057
Investments	418,050	469,104	426,539	498,411	592,981
Cash & Bank Bal	96,387	104,905	54,957	78,678	108,846
Fixed & Other Assets	57,364	77,168	75,968	87,809	103,243
Total Assets	1,628,226	1,873,267	1,852,879	2,141,671	2,518,128
No. of shares (m)	430	465	480	480	480
Deposits growth (%)	17.5	14.3	(2.6)	16.9	19.0
Advances growth (%)	17.0	15.7	6.0	14.0	16.0

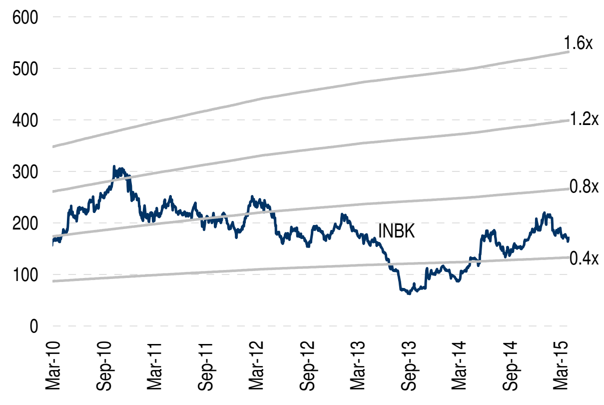
Source: Company, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	3.1	2.6	2.7	2.8	2.8
Other inc. / Total inc.	22.1	23.9	22.2	21.9	20.7
Cost-Income	47.3	49.4	49.0	47.5	46.0
Provision coverage	33.1	39.4	40.0	43.7	43.9
Dividend Payout	17.7	16.8	16.8	16.8	16.8
Credit-Deposit	74.4	75.3	82.0	80.0	78.0
Investment-Deposit	29.4	28.9	27.0	27.0	27.0
Gross NPA	3.4	3.7	4.5	4.6	4.3
Net NPA	2.3	2.3	2.7	2.6	2.4
BV (₹)	276.4	296.3	310.6	332.0	358.4
Adj. BV (₹)	220.9	236.9	237.5	252.8	273.1
CAR	13.1	12.8	13.4	12.6	11.8
- Tier 1	10.9	10.4	11.2	10.5	9.8
RoE	13.9	9.0	7.8	8.6	9.8
RoA	1.0	0.7	0.6	0.7	0.7

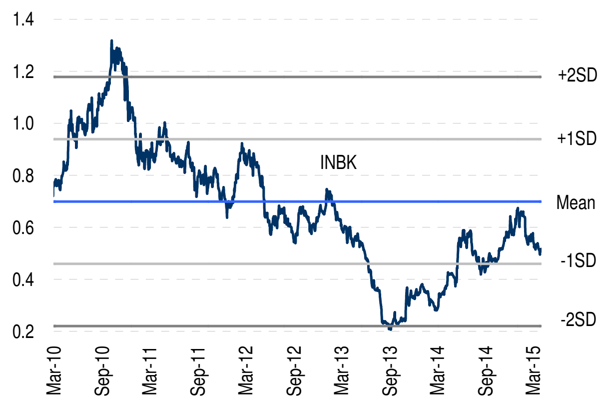
Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



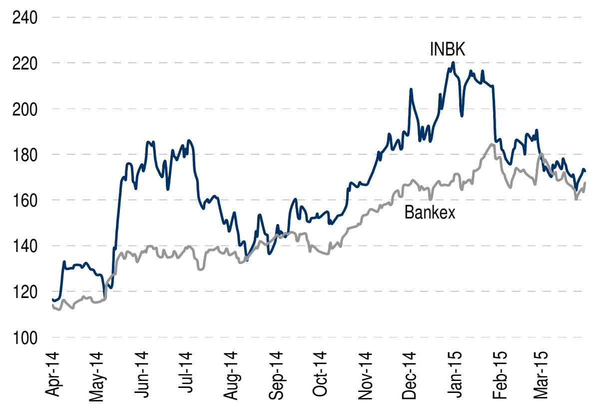
Source: Bloomberg, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



Source: Bloomberg, Anand Rathi Research

Fig 6 – Indian Bank vs. Bankex



Source: Bloomberg

09 April 2015

Indian Overseas Bank

Rating: **Hold**
Target Price: ₹43
Share Price: ₹43

Recovery to be delayed; maintaining a Hold

A mid-cap public sector bank, Indian Overseas Bank is dominant in the four southern states (Tamil Nadu, Kerala, Andhra Pradesh and Karnataka). We maintain our Hold recommendation on the share as the new stress formation continues at a higher level. For the stock to be re-rated, we believe it is important for new NPL formation to ease substantially. This appears difficult because of a weak macro and the bank's strong loan growth in sectors currently traversing a downturn, especially metals and infra. We revise our price target to ₹43.

Stock of stressed assets uncomfortably high. IOB's stressed assets (gross non-performing plus restructured loans) are not only uncomfortably high but also among the highest in the sector, at 17.3% of loans (gross NPL: 8.1%, outstanding restructured loans: 9.2%). We do not expect the stock of stressed assets to start trending down, at least in the near future, because of the weak macro-economic environment and the bank's high exposure to sensitive sectors.

Restrained core performance to continue. With worsening asset quality, we expect credit costs to be high in FY17. Also, we expect fee income to be lower given the subdued growth in advances in FY17. Overall, the RoA and RoE in FY17 are expected to be 0.3% and 5%, respectively, in our view.

Lower Tier 1 ratio to trigger capital raising. Tier 1 at 7.2% is low, especially in the context of the high degree of slippage.

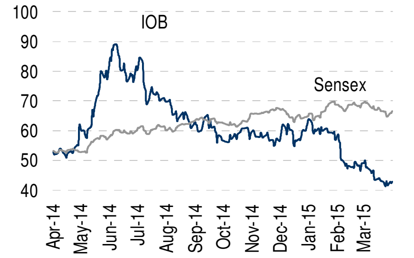
Valuation. The bank's RoAs would be low in FY17. The stock quotes at 0.5x FY17e ABV. While valuations are nearing the FY02-03 levels, we retain our Hold recommendation as we do not see any relief to asset quality. We also revise our price target to ₹43. **Risks.** Upside: Sharp improvement in asset quality, faster-than-estimated credit growth.

Key data	IOB IN / IOBK.BO
52-week high/low	₹90 / ₹41
Sensex/Nifty	28885 / 8778
3-m average volume	US$2.2m
Market cap	₹53bn / US$0.9bn
Shares outstanding	1235.3m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	73.8	73.8	73.8
- of which, Pledged	-	-	-
Free Float	26.2	26.2	26.2
- Foreign Institutions	2.3	2.3	2.4
- Domestic Institutions	15.0	14.8	15.0
- Public	8.9	9.0	8.8

Estimate revisions (%)	FY16e	FY17e
NII	(10.6)	(10.4)
Provisions	(10.5)	(27.0)
PAT	(63.2)	(28.9)
ROE (bps)	(391)	(175)

Relative price performance



Source: Bloomberg

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	52,519	55,768	57,245	64,330	73,967
Non-interest income (₹ m)	19,729	21,693	20,330	21,042	22,189
Operating expenses (₹ m)	34,078	37,489	46,933	50,797	56,251
Cost-Income (%)	47.2	48.4	60.5	59.5	58.5
Pre-provisioning profit (₹ m)	38,170	39,972	30,642	34,576	39,905
Provisions (₹ m)	30,695	31,542	31,542	29,965	28,467
PBT (₹ m)	7,475	8,430	(900)	4,611	11,438
Tax (₹ m)	1,803	2,413	1,800	692	2,859
PAT (₹ m)	5,672	6,017	(2,700)	3,919	8,578
EPS (₹)	6.1	4.9	(2.2)	3.2	6.9

Source: Company, Anand Rathi Research

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

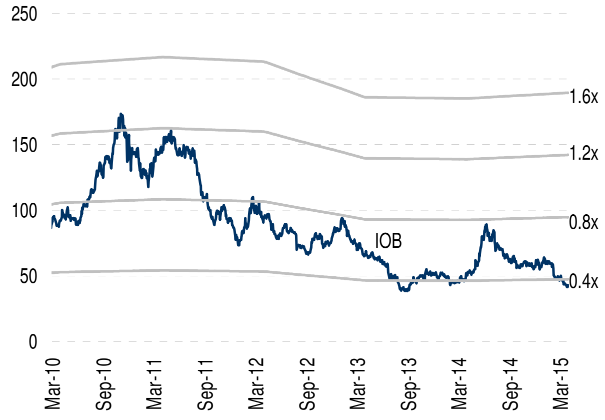
Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	52,519	55,768	57,245	64,330	73,967
NII growth (%)	4.7	6.2	2.6	12.4	15.0
Non-interest inc.	19,729	21,693	20,330	21,042	22,189
Total income	72,249	77,462	77,574	85,373	96,156
Total income growth (%)	7.9	7.2	0.1	10.1	12.6
Oper. expenses	34,078	37,489	46,933	50,797	56,251
Operating profit	38,170	39,972	30,642	34,576	39,905
Operating profit growth (%)	8.0	4.7	(23.3)	12.8	15.4
Provisions	30,695	31,542	31,542	29,965	28,467
PBT	7,475	8,430	(900)	4,611	11,438
Tax	1,803	2,413	1,800	692	2,859
PAT	5,672	6,017	(2,700)	3,919	8,578
PAT growth (%)	(46.0)	6.1	(144.9)	(245.1)	118.9
FDEPS (₹/sh)	6.1	4.9	(2.2)	3.2	6.9
DPS (₹/sh)	2.3	1.4	-	-	-

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	9,241	12,353	12,353	12,353	12,353
Reserves & surplus	125,333	149,348	148,842	152,761	161,340
Deposits	2,021,353	2,279,761	2,455,576	2,666,504	2,967,462
Borrowings	290,633	307,586	338,344	372,179	409,397
Minority interests	-	-	-	-	-
Total Liabilities	2,446,560	2,749,048	2,955,116	3,203,797	3,550,552
Advances	1,603,641	1,758,878	1,890,793	2,079,873	2,329,458
Investments	614,173	702,368	773,506	786,619	830,889
Cash & Bank Bal	152,584	190,088	184,432	221,969	262,385
Fixed & Other Assets	76,161	97,715	106,384	115,337	127,820
Total Assets	2,446,560	2,749,048	2,955,116	3,203,797	3,550,552
No. of shares (m)	924	1,235	1,235	1,235	1,235
Deposits growth (%)	13.3	12.8	7.7	8.6	11.3
Advances growth (%)	14.0	9.7	7.5	10.0	12.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value

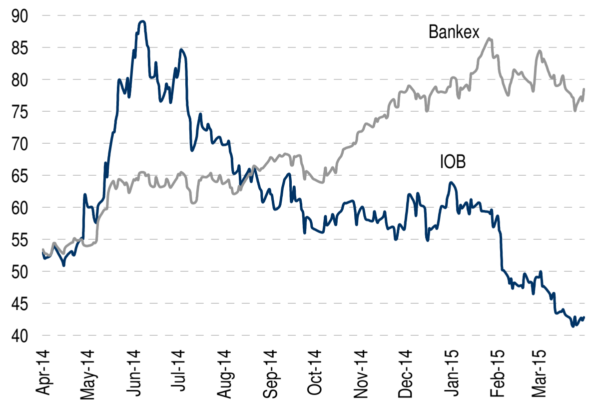
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	2.4	2.3	2.1	2.2	2.3
Other inc. / Total inc.	27.3	28.0	26.2	24.6	23.1
Cost-Income	47.2	48.4	60.5	59.5	58.5
Provision coverage	39.1	37.3	32.7	32.4	23.3
Dividend Payout	37.9	28.0	-	-	-
Credit-Deposit	79.3	77.2	77.0	78.0	78.5
Investment-Deposit	30.4	30.8	31.5	29.5	28.0
Gross NPA	4.1	5.1	8.1	7.8	6.5
Net NPA	2.5	3.2	5.5	5.3	5.0
BV (₹)	133.2	116.2	115.8	119.0	125.9
Adj. BV (₹)	89.6	70.4	74.0	74.6	78.7
CAR	12.6	12.5	10.0	9.4	8.9
- Tier 1	8.3	8.6	7.1	6.6	6.3
RoE	4.5	4.1	(1.7)	2.4	5.1
RoA	0.2	0.2	(0.1)	0.1	0.3

Source: Company, Anand Rathi Research

Fig 6 – Indian Overseas Bank vs. Bankex



Source: Bloomberg

09 April 2015

Jammu & Kashmir Bank

Going local; Buy

Rating: **Buy**
Target Price: ₹130
Share Price: ₹103

Over FY14-18 the Jammu & Kashmir Bank will focus on the eponymous state of Jammu & Kashmir. This has positive implications for the bank's growth, opex and margins. On the macro front, a wholesale dependent liability profile and a large AFS book would make the bank a key beneficiary of falling interest rates. Expect ex. J&K advances growth and stressed asset formation to normalise gradually. We maintain our Buy recommendation, with a target of ₹130. The stock trades at 0.8x FY17e ABV while our target multiple is 1x FY17e ABV.

Focus on its home state. For growth, management is focusing on its home state of J&K. We expect the proportion of J&K advances in total advances to rise to 53% in FY17, from 48% now, resulting in a consistent 3.7%—3.9% NIM. We expect a 15% CAGR in loans over FY15-17. We expect the bank's monopoly to be intact in J&K, with a 65% and 61% market share of advances and deposits, respectively, in FY17. We also expect CASA to average 42.2% through FY17.

Asset quality likely to improve. Large corporates (mostly AAA rated) comprise 84% of the bank's credit portfolio outside J&K and almost 50% of the bank's total credit, which is generally of low risk. Further, within J&K, 31% are retail loans, mostly salaried accounts with low risk. The recent floods and slippage in some corporate exposures have affected overall performance. However, we expect a slowdown in incremental slippage in FY16 and FY17 though short-term pains cannot be ruled out. We expect gross and net NPA for FY17 at, 5.3% and 2.6%, respectively.

Valuation. We expect the bank's robust profitability to continue, driven by the better NIM, low operating expenses and stable credit costs. The stock trades at 0.8x FY17e P/ABV. We maintain our Buy, with a target of ₹130, at which it trades at 1x FY17e P/ABV. **Risks.** A steep rise in defaults and slower accretion in low-cost deposits.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	23,160	26,845	28,153	29,831	33,768
Non-interest income (₹ m)	4,837	3,903	4,199	3,964	4,396
Operating expenses (₹ m)	9,890	11,750	15,529	16,053	17,555
Cost-Income (%)	35.3	38.2	48.0	47.5	46.0
Pre-provisioning profit (₹ m)	18,108	18,998	16,823	17,743	20,608
Provisions (₹ m)	2,843	1,480	7,398	3,699	4,069
PBT (₹ m)	15,265	17,518	9,425	14,043	16,539
Tax (₹ m)	4,714	5,693	3,110	4,634	5,458
PAT (₹ m)	10,551	11,825	6,314	9,409	11,081
EPS (₹)	21.8	24.4	13.0	19.4	22.9

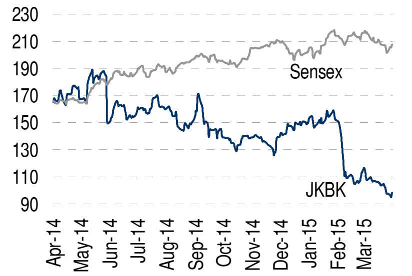
Source: Company, Anand Rathi Research

Key data	JKBK IN / JKBK.BO
52-week high/low	₹200 / ₹94
Sensex/Nifty	28885 / 8778
3-m average volume	US$2.7m
Market cap	₹48bn / US$0.8bn
Shares outstanding	484.8m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	53.2	53.2	53.2
- of which, Pledged	-	-	-
Free Float	46.8	46.8	46.8
- Foreign Institutions	29.3	30.0	29.4
- Domestic Institutions	4.3	3.0	3.1
- Public	13.3	13.9	14.3

Estimate revisions (%)	FY16e	FY17e
NII	(10.5)	(16.4)
Provisions	1.9	(2.0)
PAT	(26.4)	(30.4)
ROE (bps)	(463)	(548)

Relative price performance



Source: Bloomberg

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

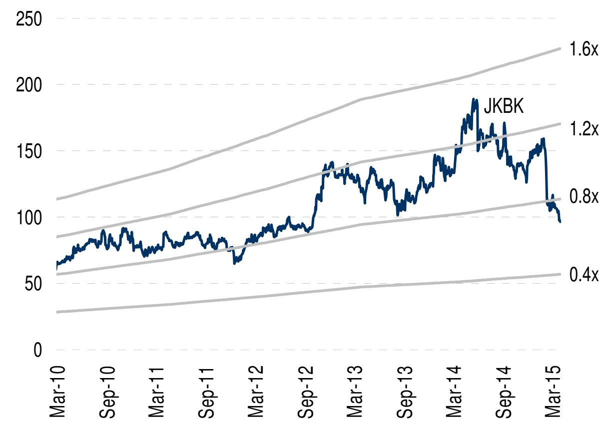
Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	23,160	26,845	28,153	29,831	33,768
NII growth (%)	26.0	15.9	4.9	6.0	13.2
Non-interest inc.	4,837	3,903	4,199	3,964	4,396
Total income	27,998	30,747	32,352	33,795	38,164
Total income growth (%)	28.9	9.8	5.2	4.5	12.9
Oper. expenses	9,890	11,750	15,529	16,053	17,555
Operating profit	18,108	18,998	16,823	17,743	20,608
Operating profit growth (%)	32.1	4.9	(11.4)	5.5	16.2
Provisions	2,843	1,480	7,398	3,699	4,069
PBT	15,265	17,518	9,425	14,043	16,539
Tax	4,714	5,693	3,110	4,634	5,458
PAT	10,551	11,825	6,314	9,409	11,081
PAT growth (%)	31.4	12.1	(46.6)	49.0	17.8
FDEPS (₹/sh)	21.8	24.4	13.0	19.4	22.9
DPS (₹/sh)	5.0	5.0	2.7	4.0	4.7

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	485	485	485	485	485
Reserves & surplus	48,162	56,751	61,548	68,696	77,114
Deposits	642,206	693,359	665,950	770,186	898,739
Borrowings	26,580	35,603	39,163	43,079	47,387
Minority interests	-	-	-	-	-
Total Liabilities	717,433	786,197	767,146	882,446	1,023,725
Advances	392,004	463,846	466,165	531,428	611,143
Investments	257,411	261,951	246,402	269,565	296,584
Cash & Bank Bal	54,043	42,139	36,935	61,156	92,453
Fixed & Other Assets	13,975	18,262	17,644	20,296	23,546
Total Assets	717,433	786,197	767,146	882,446	1,023,725
No. of shares (m)	485	485	485	485	485
Deposits growth (%)	20.4	8.0	(4.0)	15.7	16.7
Advances growth (%)	18.5	18.3	0.5	14.0	15.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value

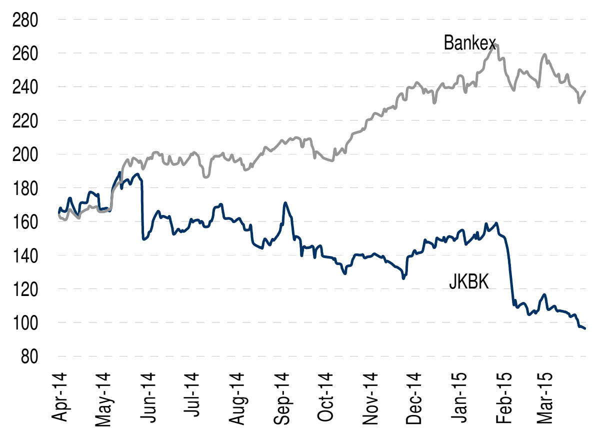
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	3.6	3.6	3.7	3.7	3.6
Other inc. / Total inc.	17.3	12.7	13.0	11.7	11.5
Cost-Income	35.3	38.2	48.0	47.5	46.0
Provision coverage	91.4	87.0	44.5	47.7	51.1
Dividend Payout	23.0	20.5	20.5	20.5	20.5
Credit-Deposit	61.0	66.9	70.0	69.0	68.0
Investment-Deposit	40.1	37.8	37.0	35.0	33.0
Gross NPA	1.6	1.7	5.8	5.6	5.3
Net NPA	0.1	0.2	3.2	2.9	2.6
BV (₹)	100.3	118.0	127.9	142.7	160.0
Adj. BV (₹)	99.2	115.9	97.0	110.8	127.4
CAR	12.8	12.7	12.7	12.3	11.8
- Tier 1	10.8	11.2	11.3	11.1	10.8
RoE	23.6	22.3	10.6	14.3	15.1
RoA	1.6	1.6	0.8	1.1	1.2

Source: Company, Anand Rathi Research

Fig 6 – Jammu & Kashmir Bank vs. Bankex



Source: Bloomberg

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India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

Karnataka Bank

Stepping up the pace of growth; Buy

Rating: **Buy**
Target Price: ₹160
Share Price: ₹127

Karnataka Bank is one of the best regional private banks in the country. 62% of its branches are in Karnataka. We prefer it for its strong regional presence, good technology network, sturdy retail franchise and possible M&A play. It is attractive because of its robust, 18%, loan CAGR over FY15-17, improving asset quality and consolidation in the Indian banking arena. Its valuation of 0.7x FY17e P/ABV appears attractive. We maintain our Buy, with a target of ₹160.

Ahead, asset quality to improve. While the bank's asset quality deteriorated in Q1 FY15, it has been stable in the last two quarters, chiefly because of write-offs and sale to ARCs. Its asset quality had deteriorated on account of bulky slippages in its corporate segment. Its stressed loans stood at 8.8% (incl. 5.4% of restructured advances). Management is aggressively pursuing recovery of the bulk loans. If this succeeds, its NPA would come down drastically. We expect NPA to decline to 2.4% by FY17.

Higher credit deposit and better CASA to drive NIM improvement. The 67.7% credit-deposit ratio is one of the lowest of its peers, with potential to rise. Further, the bank now fulfils its priority-sector obligations and expects reversals from RIDF investments to continue. Also, we expect CASA to start rising, driven by the management's focus on improving its retail franchise. Led by the higher credit-deposit ratio (of ~70%) and the greater proportion of CASA (26.2% anticipated in FY17), we expect FY17 NIM to rise to ~2.8%.

Valuation. We expect the faster retail business growth, stable NIM and adequate capital to drive a higher RoE of 14.4% by FY17 (from 10.5% in FY14). On the inexpensive valuations, we retain our Buy call. At our Mar'17 target, the stock quotes at 0.9x FY17e P/ABV (0.7x FY17e BV). It now trades at 0.7x FY17e ABV. **Risk.** Greater-than-expected credit costs.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	9,037	10,561	12,106	14,689	17,915
Non-interest income (₹ m)	3,976	5,056	5,667	6,351	6,764
Operating expenses (₹ m)	6,660	8,746	9,938	11,371	13,327
Cost-Income (%)	51.2	56.0	55.9	54.0	54.0
Pre-provisioning profit (₹ m)	6,353	6,871	7,835	9,669	11,352
Provisions (₹ m)	1,712	2,784	2,924	3,128	3,379
PBT (₹ m)	4,642	4,086	4,912	6,540	7,974
Tax (₹ m)	1,161	976	707	1,544	2,233
PAT (₹ m)	3,481	3,110	4,204	4,996	5,741
EPS (₹)	18.5	16.5	22.3	26.5	30.5

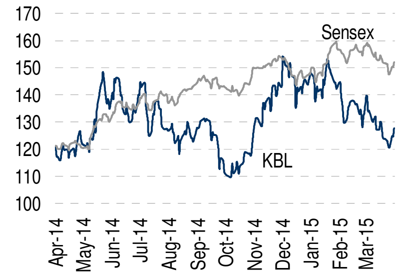
Source: Company, Anand Rathi Research

Key data	KBL IN / KBNK.BO
52-week high/low	₹157 / ₹109
Sensex/Nifty	28885 / 8778
3-m average volume	US$4.8m
Market cap	₹24bn / US$0.4bn
Shares outstanding	188.4m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	-	-	-
- of which, Pledged	-	-	-
Free Float	100	100	100
- Foreign Institutions	21.1	20.6	22.4
- Domestic Institutions	10.0	8.5	8.1
- Public	68.9	70.9	69.6

Estimates revision (%)	FY16e	FY17e
NII	3.1	3.6
Provisions	0.6	8.7
PAT	(2.0)	(11.5)
ROE (bps)	(170)	(205)

Relative price performance



Source: Bloomberg

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	9,037	10,561	12,106	14,689	17,915
NII growth (%)	23.4	16.9	14.6	21.3	22.0
Non-interest inc.	3,976	5,056	5,667	6,351	6,764
Total income	13,014	15,617	17,773	21,040	24,679
Total income growth (%)	20.7	20.0	13.8	18.4	17.3
Oper. expenses	6,660	8,746	9,938	11,371	13,327
Operating profit	6,353	6,871	7,835	9,669	11,352
Operating profit growth (%)	24.5	8.1	14.0	23.4	17.4
Provisions	1,712	2,784	2,924	3,128	3,379
PBT	4,642	4,086	4,912	6,540	7,974
Tax	1,161	976	707	1,544	2,233
PAT	3,481	3,110	4,204	4,996	5,741
PAT growth (%)	41.5	(10.7)	35.2	18.8	14.9
FDEPS (₹/sh)	18.5	16.5	22.3	26.5	30.5
DPS (₹/sh)	4.0	4.0	4.2	4.5	4.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	1,884	1,884	1,884	1,884	1,884
Reserves & surplus	26,687	28,638	31,759	35,504	40,358
Deposits	360,562	405,828	466,867	530,628	621,700
Borrowings	26,131	33,938	40,787	45,781	51,632
Minority interests	-	-	-	-	-
Total Liabilities	415,264	470,288	541,297	613,797	715,574
Advances	252,077	283,455	317,469	371,439	438,298
Investments	134,325	152,268	172,741	191,026	217,595
Cash & Bank Bal	19,538	23,374	38,637	37,215	43,222
Fixed & Other Assets	9,324	11,191	12,450	14,117	16,458
Total Assets	415,264	470,288	541,297	613,797	715,574
No. of shares (m)	188	188	188	188	188
Deposits growth (%)	14.1	12.6	15.0	13.7	17.2
Advances growth (%)	21.7	12.4	12.0	17.0	18.0

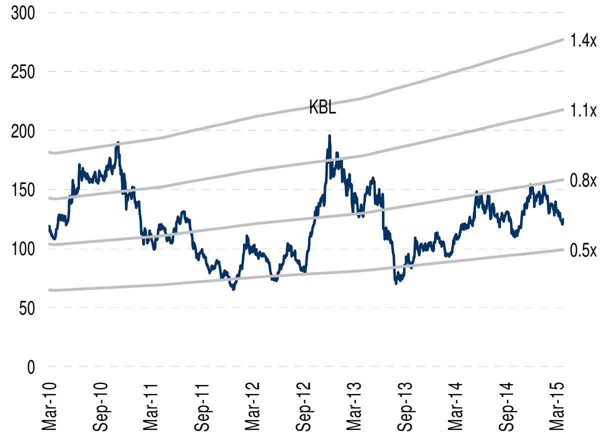
Source: Company, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	2.4	2.5	2.5	2.6	2.8
Other inc. / Total inc.	30.6	32.4	31.9	30.2	27.4
Cost-Income	51.2	56.0	55.9	54.0	54.0
Provision coverage	40.9	37.8	29.9	21.3	21.7
Dividend Payout	21.7	24.2	18.8	17.0	14.8
Credit-Deposit	69.9	69.8	68.0	70.0	70.5
Investment-Deposit	37.3	37.5	37.0	36.0	35.0
Gross NPA	2.5	3.0	3.4	2.8	2.4
Net NPA	1.5	1.9	2.4	2.2	1.9
BV (₹)	151.7	162.0	178.6	198.4	224.2
Adj. BV (₹)	131.6	133.7	138.4	154.8	180.5
CAR	12.9	13.2	11.7	11.8	11.0
- Tier 1	10.6	10.7	9.9	9.5	9.1
RoE	12.8	10.5	13.1	14.1	14.4
RoA	0.9	0.7	0.8	0.9	0.9

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band

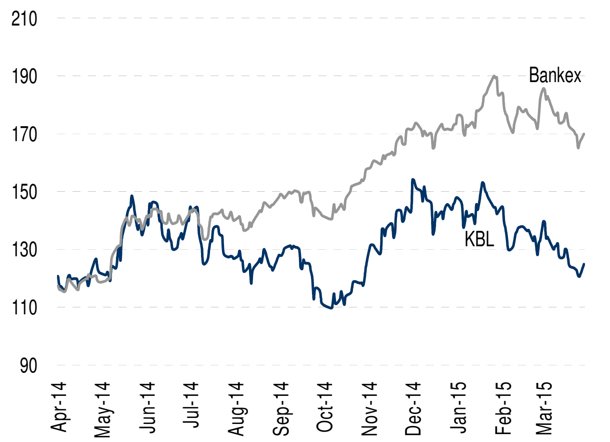


Source: Bloomberg, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value

Source: Bloomberg, Anand Rathi Research

Fig 6 – Karnataka Bank vs. Bankex



Source: Bloomberg

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India I Equities

Financials
Company Update
Change in Estimates ☑ Target ☑ Reco ☐

09 April 2015

Karur Vysya Bank

Key beneficiary of the declining interest-rate scenario; Buy

Rating: **Buy**
Target Price: ₹690
Share Price: ₹547

On both, the macro and micro, fronts, Karur Vysya Bank is set to benefit substantially. While its provisioning is expected to ease, the bank will be the key beneficiary of a declining interest-rate environment given that ~25% of its deposits are bulk deposits. Loan growth would come above the industry average, fuelled by the focus on retail and SME loans, in our view. We retain our Buy recommendation, with a target of ₹690. The stock trades at 1.4x FY17e ABV.

Loan growth picking up, led by retail and SME. The bank's advances would see an 18% CAGR over FY15-17, in our view. It greater focus has been on retail and SME, with corporate lending taking a backseat. The proportion of retail advances in total loans has risen from 9% in FY11 to 13% in Q3 FY15; for corporates, it has slipped from 43% to 38%. Gold loans (both priority and non-priority) constitute around 21% of the loan book. With stability in both gold prices and LTV norms, we expect the gold loan book to start growing compared to the decline in the last 18-24 months.

Asset quality to improve; management confident of keeping slippage low. The bank has recently undershot its peers on concerns about its asset quality. Management, however, is confident of keeping slippage lower. Most of the slippage in 9MFY15 was from the corporate sector. The provisioning coverage ratio stood at a strong 75%.

Valuation. The bank raised capital in Q2 FY15. Consequently, its Tier 1 ratio was a strong 13.1% in Dec'14, enabling it to leverage growth opportunities coming up in the retail and SME segments. The consistently healthy balance sheet growth, improving provisioning cost and strong asset quality would keep it profitable (RoA of 1.1%, RoE of 16.6% in FY17). We have a target of ₹690, valuing the stock at 1.8x FY17e ABV based on normalised RoE of ~20%. **Risk.** Slower-than-expected economic growth impacting loan growth and credit quality.

Year-end: Mar	FY13	FY14	FY15	FY16e	FY17e
Net interest income (₹ m)	11,585	12,837	14,871	17,578	21,620
Non-interest income (₹ m)	4,526	5,644	5,898	6,729	7,757
Operating expenses (₹ m)	7,622	10,104	11,112	12,761	15,423
Cost-Income (%)	47.3	54.7	53.5	52.5	52.5
Pre-provisioning profit (₹ m)	8,488	8,378	9,658	11,546	13,954
Provisions (₹ m)	1,234	4,423	3,362	3,025	2,723
PBT (₹ m)	7,254	3,955	6,296	8,520	11,231
Tax (₹ m)	1,751	(341)	1,700	2,386	3,257
PAT (₹ m)	5,503	4,296	4,596	6,135	7,974
EPS (₹)	51.3	40.1	38.1	50.9	66.1

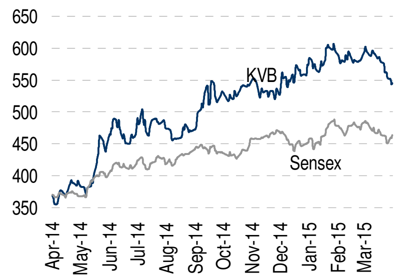
Source: Company, Anand Rathi Research

Key data	KVB IN / KARU.BO
52-week high/low	₹619 / ₹355
Sensex/Nifty	28885 / 8778
3-m average volume	US$1.5m
Market cap	₹66bn / US$1.1bn
Shares outstanding	120.9m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	2.2	2.2	2.5
- of which, Pledged	*8.7*	*11.3*	*10.6*
Free Float	97.8	97.8	97.5
- Foreign Institutions	28.3	28.5	25.0
- Domestic Institutions	18.1	17.8	12.6
- Public	51.4	51.5	60.0

Estimate revisions (%)	FY16e	FY17e
NII	(6.2)	(4.0)
Provisions	(6.3)	(22.9)
PAT	(13.6)	(10.9)
ROE (bps)	(163)	(174)

Relative price performance



Source: Bloomberg

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	11,585	12,837	14,871	17,578	21,620
NII growth (%)	26.3	10.8	15.8	18.2	23.0
Non-interest inc.	4,526	5,644	5,898	6,729	7,757
Total income	16,110	18,482	20,769	24,307	29,377
Total income growth (%)	27.1	14.7	12.4	17.0	20.9
Oper. expenses	7,622	10,104	11,112	12,761	15,423
Operating profit	8,488	8,378	9,658	11,546	13,954
Operating profit growth (%)	17.0	(1.3)	15.3	19.5	20.9
Provisions	1,234	4,423	3,362	3,025	2,723
PBT	7,254	3,955	6,296	8,520	11,231
Tax	1,751	(341)	1,700	2,386	3,257
PAT	5,503	4,296	4,596	6,135	7,974
PAT growth (%)	9.7	(21.9)	7.0	33.5	30.0
FDEPS (₹/sh)	51.3	40.1	38.1	50.9	66.1
DPS (₹/sh)	14.0	13.1	16.0	16.0	20.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	1,072	1,072	1,206	1,206	1,206
Reserves & surplus	29,780	32,192	40,493	44,370	49,522
Deposits	386,530	437,577	470,331	558,504	663,232
Borrowings	49,952	44,591	54,678	64,582	76,067
Minority interests	-	-	-	-	-
Total Liabilities	467,333	515,432	566,708	668,661	790,027
Advances	294,801	339,921	373,913	441,218	520,637
Investments	138,373	132,470	145,803	167,551	192,337
Cash & Bank Bal	17,960	26,782	28,857	39,164	52,562
Fixed & Other Assets	16,199	16,258	18,135	20,729	24,491
Total Assets	467,333	515,432	566,708	668,661	790,027
No. of shares (m)	107	107	121	121	121
Deposits growth (%)	20.4	13.2	7.5	18.7	18.8
Advances growth (%)	23.1	15.3	10.0	18.0	18.0

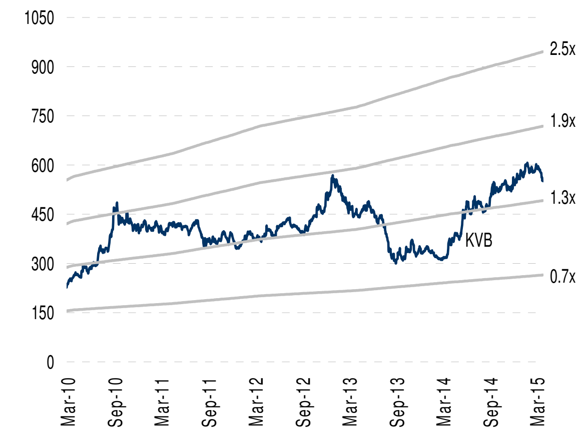
Source: Company, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	2.8	2.7	2.8	2.9	3.1
Other inc. / Total inc.	28.1	30.5	28.4	27.7	26.4
Cost-Income	47.3	54.7	53.5	52.5	52.5
Provision coverage	62.0	49.9	55.6	60.8	60.4
Dividend Payout	27.3	32.6	42.0	31.5	30.2
Credit-Deposit	76.3	77.7	79.5	79.0	78.5
Investment-Deposit	35.8	30.3	31.0	30.0	29.0
Gross NPA	1.0	0.8	1.9	1.8	1.6
Net NPA	0.4	0.4	0.8	0.7	0.6
BV (₹)	287.9	310.4	345.8	377.9	420.7
Adj. BV (₹)	280.8	301.2	319.6	351.8	393.0
CAR	14.4	12.6	13.7	13.8	13.3
- Tier 1	13.1	11.6	13.0	12.6	11.9
RoE	19.0	13.4	12.3	14.1	16.6
RoA	1.3	0.9	0.8	1.0	1.1

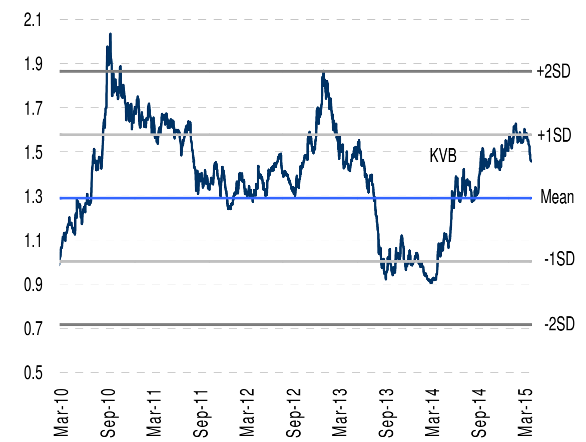
Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



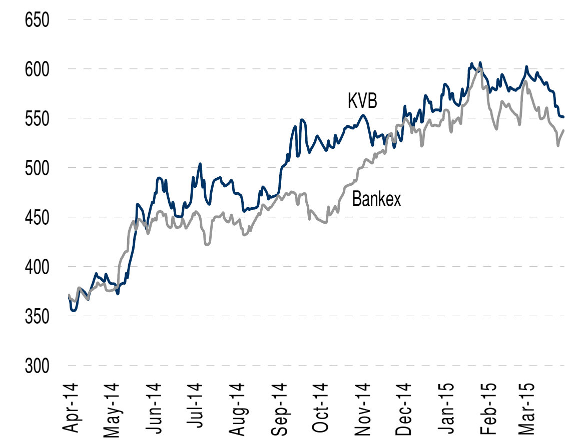
Source: Bloomberg, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



Source: Bloomberg, Anand Rathi Research

Fig 6 – Karur Vysya Bank vs. Bankex



Source: Bloomberg

ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☐ Reco ☐

09 April 2015

South Indian Bank

Looking inward for growth; Buy

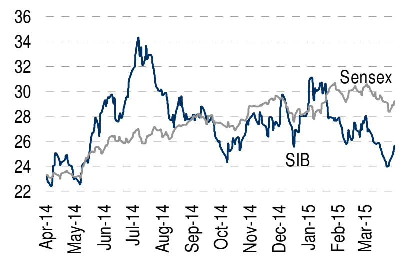
Rating: **Buy**
Target Price: ₹32
Share Price: ₹26

Key data	SIB IN / SIBK.BO
52-week high/low	₹35 / ₹22
Sensex/Nifty	28885 / 8778
3-m average volume	US$2.4m
Market cap	₹35bn / US$0.6bn
Shares outstanding	1350.2m

Shareholding pattern (%)	Jan '15	Dec '14	Sep '14
Promoters	-	-	-
- of which, Pledged	-	-	-
Free Float	100	100	100
- Foreign Institutions	32.1	40.5	40.5
- Domestic Institutions	9.9	10.7	12.2
- Public	58.0	48.7	47.3

Estimates revision (%)	FY16e	FY17e
NII	(12.4)	(15.2)
Provisions	10.7	(24.1)
PAT	(33.2)	(29.8)
ROE (bps)	(598)	(527)

Relative price performance



Source: Bloomberg

The new management of South Indian Bank (from Sep'14) outlined a move away from large-corporate lending to local catchment SME/retail business. Other areas of focus are non-interest income (at present 0.6% of assets, among the lowest of its peers) and CASA at 21% (Dec'14). Asset quality will continue buoyant. The stock trades at 0.8x FY17e ABV, a significant discount to its peers. We maintain our Buy recommendation, with a target of ₹32 (1x FY17e ABV).

NIM to improve; strong thrust on CASA franchise, retail/SME advances. Management has indicated its strong thrust on building its CASA franchise. New branches are being opened in CASA-rich states (AP, Gujarat, Maharashtra). 200 people have been hired focusing only on building the CASA franchise. We expect CASA to improve to 23% in FY17, from 21% now. The new management has emphasised local catchment SME/retail business. Gold loans, which declined in the last few quarters, have stabilised.

Asset quality buoyant. While asset quality had deteriorated in the past three quarters, we believe the worst is behind. Even after the deterioration, the bank's asset quality is one of the best in the industry, with gross and net NPA in Dec'14 at, 1.8% and 1%, respectively. We believe the higher asset-quality stress the bank experienced in 9MFY15 should now ease. Its outstanding restructured book stood at ~5%, of which more than 33% was of SEBs.

Valuation. We expect that the sharper retail focus would help the bank post a sustainable RoA of over 1%. The stock trades at 0.8x FY17e ABV and we believe a quarter of stable asset-quality performance should inspire confidence among investors and help it trade close to its adjusted BVPS. We maintain our Buy rating on the stock, with a price target of ₹32, valuing it at 1x FY17e ABV. **Risk.** Sharp rise in loan defaults, leading to credit costs being more than estimated, consequently leading to lower profitability.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	12,808	13,988	14,695	16,513	19,649
Non-interest income (₹ m)	3,349	3,685	4,661	4,391	5,210
Operating expenses (₹ m)	7,672	8,829	10,743	11,497	13,548
Cost-Income (%)	47.5	50.0	55.5	55.0	54.5
Pre-provisioning profit (₹ m)	8,486	8,843	8,614	9,407	11,311
Provisions (₹ m)	1,927	1,554	2,828	2,263	1,810
PBT (₹ m)	6,559	7,289	5,785	7,144	9,501
Tax (₹ m)	1,536	2,214	1,736	2,072	2,755
PAT (₹ m)	5,023	5,075	4,050	5,072	6,746
EPS (₹)	3.8	3.8	3.0	3.8	5.0

Source: Company, Anand Rathi Research

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	12,808	13,988	14,695	16,513	19,649
NII growth (%)	25.4	9.2	5.1	12.4	19.0
Non-interest inc.	3,349	3,685	4,661	4,391	5,210
Total income	16,158	17,672	19,356	20,904	24,859
Total income growth (%)	27.3	9.4	9.5	8.0	18.9
Oper. expenses	7,672	8,829	10,743	11,497	13,548
Operating profit	8,486	8,843	8,614	9,407	11,311
Operating profit growth (%)	30.2	4.2	(2.6)	9.2	20.2
Provisions	1,927	1,554	2,828	2,263	1,810
PBT	6,559	7,289	5,785	7,144	9,501
Tax	1,536	2,214	1,736	2,072	2,755
PAT	5,023	5,075	4,050	5,072	6,746
PAT growth (%)	25.1	1.0	(20.2)	25.3	33.0
FDEPS (₹/sh)	3.8	3.8	3.0	3.8	5.0
DPS (₹/sh)	0.7	0.8	0.6	0.8	1.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	1,339	1,344	1,344	1,344	1,344
Reserves & surplus	28,724	32,360	35,414	39,240	44,328
Deposits	442,623	474,911	503,859	575,626	673,482
Borrowings	25,265	41,245	45,370	49,907	54,897
Minority interests	-	-	-	-	-
Total Liabilities	497,950	549,860	585,987	666,117	774,052
Advances	318,155	362,299	380,413	437,476	511,846
Investments	125,235	143,518	151,158	166,931	188,575
Cash & Bank Bal	43,359	32,179	41,524	47,055	56,601
Fixed & Other Assets	11,201	11,864	12,892	14,655	17,029
Total Assets	497,950	549,860	585,987	666,117	774,052
No. of shares (m)	1,338.5	1,343.9	1,343.9	1,343.9	1,343.9
Deposits growth (%)	21.3	7.3	6.1	14.2	17.0
Advances growth (%)	16.6	13.9	5.0	15.0	17.0

Source: Company, Anand Rathi Research

Fig 3 – Key ratios (%)

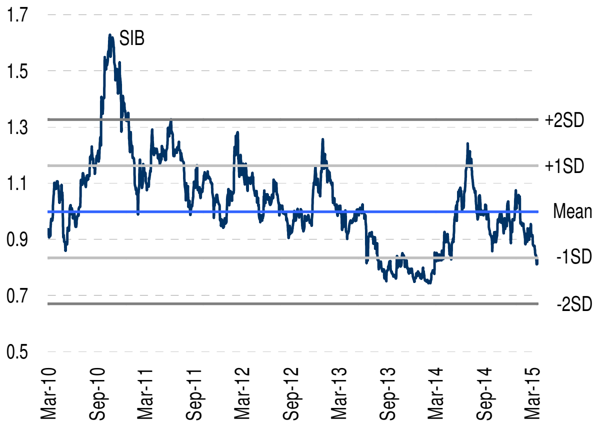
Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	2.9	2.7	2.6	2.7	2.8
Other inc. / Total inc.	20.7	20.8	24.1	21.0	21.0
Cost-Income	47.5	50.0	55.5	55.0	54.5
Provision coverage	42.5	34.9	46.9	50.5	54.1
Dividend Payout	18.7	21.2	21.0	21.0	21.0
Credit-Deposit	71.9	76.3	75.5	76.0	76.0
Investment-Deposit	28.3	30.2	30.0	29.0	28.0
Gross NPA	1.4	1.2	1.8	1.8	1.7
Net NPA	0.8	0.8	1.0	0.9	0.8
BV (₹)	22.1	24.6	26.9	29.7	33.5
Adj. BV (₹)	20.6	23.0	24.6	27.3	31.0
CAR	13.9	12.4	11.4	11.1	10.8
- Tier 1	12.0	10.8	9.9	9.7	9.5
RoE	19.4	15.9	11.5	13.1	15.6
RoA	1.1	1.0	0.7	0.8	0.9

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band

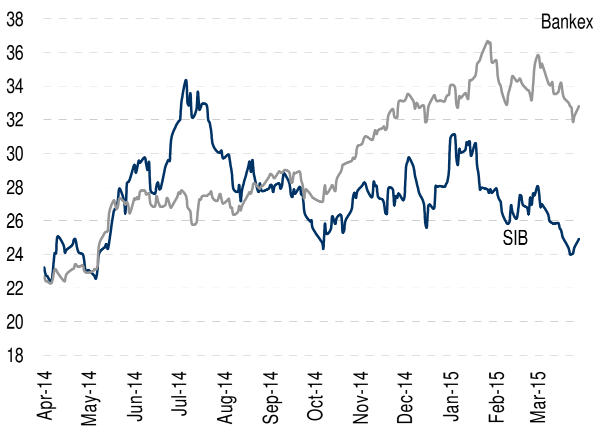
Source: Bloomberg, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



Source: Bloomberg, Anand Rathi Research

Fig 6 – South Indian Bank vs. Bankex



Source: Bloomberg

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☐ Reco ☐

09 April 2015

Vijaya Bank

A turnaround story in the making; Buy

Rating: **Buy**
Target Price: ₹65
Share Price: ₹47

Mr. Sansi took charge as CMD of Vijaya Bank on 1 Jan'15 for three years. The bank's vision for 2020 is now in place, focusing on better margins and maintaining asset quality. With gross NPA of 2.9%, its asset quality is one of the best among mid-sized public-sector banks. The bank has one of the cleanest balance sheets of its peers. The stock trades at 0.7x FY17e ABV (0.5x FY17e BV). We maintain our Buy call, with a price target of ₹65 (1x FY17e ABV).

New strategy in place. The bank has put in place its Vision 2020. All departments are now aligned to the strategy and the management says this is visible in figures for the first quarter of the current CMD. The bank will focus on retail, agri and SME lending, aiming to improve NIM to over 3% by 2020. The interim target is to increase the CD ratio from 64% to over 70% by FY16.

NIM to improve after decline in FY15; FY16 guidance at 2.3%. In FY15 the bank shed most of its bulk deposits; the full benefit will be seen in FY16. The CD ratio has begun rising, asset quality continues buoyant and the drop in bulk borrowings would lead to better margins, in our view.

Asset quality – one of the best in mid-cap PSU banking. The bank's asset quality has been strong even during the FY12-14 period because of the higher share of retail and SME advances than its peers. Management is confident of keeping slippage lower. Stressed loans were 8.7% (5.8% of restructured loans, 2.9% of gross NPA). More than 90% of the outstanding restructured advances (5.8% of total loans) are from the infrastructure segment, the bulk from SEBs.

Valuation. We recommend Vijaya Bank to investors looking for value picks among PSU banks with clean balance sheets. The stock trades at 0.7x FY17e P/ABV. We maintain our Buy, with a target of ₹65, at which the stock trades at 1x FY17e P/ABV (0.8x FY17e P/BV). **Risks.** Below-estimated credit growth, sharp increase in loan defaults.

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income (₹ m)	18,780	20,834	23,017	29,551	36,527
Non-interest income (₹ m)	6,070	7,099	8,535	8,483	9,779
Operating expenses (₹ m)	13,630	16,896	18,427	21,109	25,237
Cost-Income (%)	54.8	60.5	58.4	55.5	54.5
Pre-provisioning profit (₹ m)	11,220	11,037	13,126	16,925	21,069
Provisions (₹ m)	5,455	6,558	7,476	8,755	9,039
PBT (₹ m)	5,765	4,480	5,649	8,170	12,030
Tax (₹ m)	(91)	320	621	1,226	3,007
PAT (₹ m)	5,856	4,159	5,028	6,945	9,022
EPS (₹)	11.8	4.8	5.9	8.1	10.5

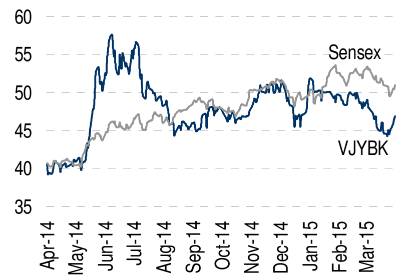
Source: Company, Anand Rathi Research

Key data	VJYBK IN / VJBK.BO
52-week high/low	₹59 / ₹39
Sensex/Nifty	28885 / 8778
3-m average volume	US$0.4m
Market cap	₹40bn / US$0.65bn
Shares outstanding	859.1m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	74.1	74.1	74.1
- of which, Pledged	-	-	-
Free Float	25.9	25.9	25.9
- Foreign Institutions	2.9	2.9	2.8
- Domestic Institutions	7.6	7.0	6.9
- Public	15.5	16.0	16.3

Estimate revisions (%)	FY16e	FY17e
NII	(5.1)	-
Provisions	26.6	-
PAT	(8.8)	-
ROE (bps)	(167)	-

Relative price performance



Source: Bloomberg

Nikhil Rungta
+9122 6626 6744
nikhilrungta@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net interest income	18,780	20,834	23,017	29,551	36,527
NII growth (%)	(1.3)	10.9	10.5	28.4	23.6
Non-interest inc.	6,070	7,099	8,535	8,483	9,779
Total income	24,850	27,933	31,553	38,034	46,306
Total income growth (%)	2.2	12.4	13.0	20.5	21.7
Oper. expenses	13,630	16,896	18,427	21,109	25,237
Operating profit	11,220	11,037	13,126	16,925	21,069
Operating profit growth (%)	(8.8)	(1.6)	18.9	28.9	24.5
Provisions	5,455	6,558	7,476	8,755	9,039
PBT	5,765	4,480	5,649	8,170	12,030
Tax	(91)	320	621	1,226	3,007
PAT	5,856	4,159	5,028	6,945	9,022
PAT growth (%)	0.8	(29.0)	20.9	38.1	29.9
FDEPS (₹/sh)	11.8	4.8	5.9	8.1	10.5
DPS (₹/sh)	2.9	1.9	1.5	2.0	2.0

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band

Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	4,955	8,591	8,591	8,591	8,591
Reserves & surplus	50,631	50,288	56,137	61,071	68,083
Deposits	970,172	1,242,962	1,284,306	1,474,160	1,661,856
Borrowings	84,056	71,745	73,687	74,070	75,679
Minority interests	-	-	-	-	-
Total Liabilities	1,109,815	1,373,586	1,422,721	1,617,893	1,814,209
Advances	697,658	815,040	847,642	1,017,170	1,179,918
Investments	312,850	425,854	462,350	501,214	531,794
Cash & Bank Bal	66,448	94,576	77,161	59,061	57,143
Fixed & Other Assets	32,861	38,115	35,568	40,447	45,355
Total Assets	1,109,815	1,373,586	1,422,721	1,617,893	1,814,209
No. of shares (m)	496	859	859	859	859
Deposits growth (%)	16.8	28.1	3.3	14.8	12.7
Advances growth (%)	20.5	16.8	4.0	20.0	16.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value

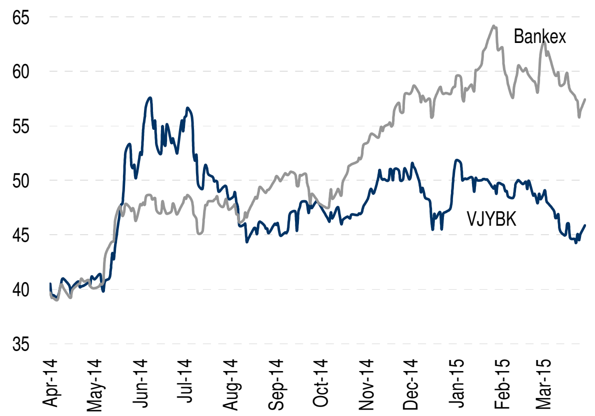
Source: Bloomberg, Anand Rathi Research

Fig 3 – Key ratios (%)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
NIM	1.9	1.8	1.7	2.0	2.2
Other inc. / Total inc.	24.4	25.4	27.1	22.3	21.1
Cost-Income	54.8	60.5	58.4	55.5	54.5
Provision coverage	54.5	43.6	44.6	42.5	33.7
Dividend Payout	24.8	39.8	25.6	24.7	19.0
Credit-Deposit	71.9	65.6	66.0	69.0	71.0
Investment-Deposit	32.2	34.3	36.0	34.0	32.0
Gross NPA	2.2	2.4	3.0	2.8	2.6
Net NPA	1.3	1.5	1.9	1.8	1.7
BV (₹)	82.7	65.6	72.4	78.2	86.3
Adj. BV (₹)	64.3	50.9	53.6	56.7	62.8
CAR	11.3	10.6	10.5	10.2	9.7
- Tier 1	8.5	8.1	7.9	7.6	7.2
RoE	13.9	8.1	8.3	10.3	12.3
RoA	0.6	0.3	0.4	0.5	0.5

Source: Company, Anand Rathi Research

Fig 6 – Vijaya Bank vs. Bankex



Source: Bloomberg

Appendix

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