RESULT UPDATE

DCB BANK

Scaling up

India Equity Research| Banking and Financial Services

DCB Bank's (DCB) Q3FY15 PAT at INR425mn (up 17% YoY) was in line with estimates. The quarter was characterised by 47% YoY growth in operating profit on healthy revenue growth and lower cost/income (down ~150bps QoQ). Key highlights: 1) loan growth healthy at 29% YoY, aided by mortgage and agri growth; 2) NIMs were steady despite capital raising of INR2.5bn, due to lower lending yields which restricted NII growth to 29% YoY; and 3) asset quality remained benign with slippages curtailed at ~1% (pace of addition in SME segment has reduced). With DCB investing towards building its branch franchise, we expect it to sustain above-industry growth over sustained time frame and providing consistent earnings visibility. We introduce FY17 estimates and roll forward our valuations to 2.0x FY17E P/BV with TP of INR140. Maintain 'BUY'.

This report includes Q3FY15/Q2FY15 earnings concall highlights

Healthy revenue traction negates tax impact

DCB reported healthy 47% YoY growth in operating profit, largely supported by continued traction in loan book, stable NIMs (marginally down QoQ, but still healthy) and higher treasury profit. This, to an extent, was curtailed by higher opex growth (up 26% YoY) as the bank is focusing on building branch franchise. Taking into account that full tax provisions are likely to emerge in FY16, PAT growth will be slower at 13-15% though operating profitability will remain steady.

Improving cost efficiencies, key focus area

One of the major impediments to DCB delivering higher return ratios has been its high cost structure. The bank has been focusing on the same and in Q3FY15, cost-income ratio improved marginally to 59.8% (versus 61.3% in Q2FY15) on healthy revenue traction despite higher opex growth. Given emphasis on building strong franchise, we expect opex to run at elevated levels even as higher revenue growth will keep cost/income under check — expects 2-3% improvement in cost/income per year.

Outlook and valuations: Steady performance; maintain 'BUY'

Amidst challenges, DCB has recorded remarkable turnaround. Now, with ammunition in place—well-capitalised (tier 1 at 13.6%), strong management, robust systems and strategic branch network—we expect the bank to deliver steady performance. The stock is trading at 1.7x FY17E ABV. We maintain **'BUY/SO',** with target price of **INR140**.

Financials

Year to March	Q3FY15	Q3FY14	*Growth %*	Q2FY15	*Growth %*	FY14	FY15E	FY16E
Net int. inc. (INR mn)	1,219	940	*29.7*	1,177	*3.6*	3,684	5,360	6,340
Net profit (INR mn)	425	364	*16.9*	411	*3.4*	1,496	1,889	2,138
B/V per share (INR)						44.0	54.9	62.5
EPS (INR)	1.5	1.4	*6.3*	1.6	*(5.0)*	6.0	6.7	7.6
Price/ Book (x)						2.8	2.2	2.0
Price/ Earnings (x)						19.7	17.5	15.4

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: DCBA.BO, B: DCBB IN)*	
CMP	: INR 117
Target Price	: INR 140
52-week range (INR)	: 127 / 50
Share in issue (mn)	: 281.5
M cap (INR bn/USD mn)	: 33 / 559
Avg. Daily Vol.BSE/NSE('000)	: 1,374.5

SHARE HOLDING PATTERN (%)

	Current	Q2FY15	Q1FY15
Promoters *	16.4	16.4	18.5
MF's, FI's & BK's	24.3	24.1	14.6
FII's	15.5	14.5	14.5
Others	43.8	45.0	52.5

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	7.4	2.6	8.8
3 months	8.3	4.8	8.3
12 months	82.5	30.7	49.3

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

January 14, 2015

Loan growth up 29% YoY driven by mortgage and agri book

DCB reported loan growth of 29% YoY in Q3FY15 as it gained traction in mortgage (up 40% YoY, 10% QoQ), taking its proportion to 43% (versus ~38% a year ago). This was further aided by healthy growth in agri and inclusive banking (AIB) segment (up 47% YoY, 15% QoQ). Meanwhile, management continued to maintain cautious stance on SME book due to stress in the segment. The bank continued to focus on small-ticket loans, leading to flat SME book. DCB also continued to build granularity in loan book by focusing on secured lending including mortgages and reduced lumpy exposures. Management is targeting above-industry loan growth of 25-27% in FY15, largely led by retail, AIB and mortgage segments. Management aims to double balance sheet size in 36-42 months with approximate mix of retail/mortgages at 40%; MSME/SME 15-20%; AIB 15-20% and corporate 20-25%.

Slippages curtailed, outlook stable

Slippages during the quarter were curtailed at INR22mn (~1% versus 2% in Q2FY15). Management highlighted that given weak macro environment, slippages were mainly from SME/MSME segments. However, the pace of accretion exhibited signs of abatement given the de-risking process undertaken by management in past year. Additionally, management highlighted these loans have adequate collateral and expects to recover the same over next 12-18 months. Besides, management remains cautious on its corporate portfolio and highlighted few accounts are under stress, and given the bank's balance sheet size lumpy slippages have the potential to spoil the party. However, given the bank's focus on improving its underwriting process and adequate collateral cover, we expect asset quality to remain benign.

NIMs stable at healthy level

The bank continued to report healthy NIMs at 3.70%, down marginally by 2bps QoQ due to lower lending yields (down ~10bps QoQ) – a derivative of decline in higher yielding SME segment, higher competition and subscription to lower yielding RIDF bonds. On the other hand, despite recent capital raising and turning interest rates tables, the bank has not seen any cost benefits, which is largely due the bank's dependence on longer duration retail term deposits, which takes time to get re-priced. Going forward, management expects lending yields to come off. However, a commensurate decline in funding cost is not envisaged given the sticky nature of retail term deposits. Hence, management expects some pressure on NIMs over next 2-3 quarters.

Other income supported by treasury income

After 4 quarters of muted performance, non-interest income gained some traction, registering over 46% YoY growth largely supported by healthy treasury income (INR126mn versus run-rate of INR50mn in past six quarters) and higher forex income (INR27mn versus run-rate of INR15mn in past six quarters). Core fee income growth was also lower at 15% versus over 20% growth in past four quarters. Management highlighted the focus on granular volume-driven fee income --and has stepped up efforts to train the frontline staff at the branches to cross-sell bancassurance, mutual funds, forex and trade products -- the impact of which will likely be seen in subsequent quarters. The bank aims to grow its non-fund income by 12-14% every year which will help offset opex growth.

Other highlight

- **Mortgage composition**: LAP - 70%, home loans - 30%.

Table 1: Loan growth at 29% YoY led by mortgage and agri segments

(%)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
Advances (INR mn)	59,644	65,861	64,710	66,765	73,610	81,402	82,910	87,931	94,910
Advances growth Q-o-Q (%)	5.2	10.4	(1.7)	3.2	10.3	10.6	1.9	6.1	7.9
Advances growth Y-o-Y (%)	38.5	24.6	18.8	17.7	23.4	23.6	28.1	31.7	28.9
Deposits (INR mn)	75,582	83,638	83,200	87,881	95,920	103,252	105,520	108,999	118,500
Deposit growth Q-o-Q (%)	5.9	10.7	(0.5)	5.6	9.1	7.6	2.2	3.3	8.7
Deposit growth Y-o-Y (%)	22.1	32.0	21.8	23.1	26.9	23.5	26.8	24.0	23.5
CD ratio (%)	78.9	78.7	77.8	76.0	76.7	78.8	78.6	80.7	80.1
CASA (%)	28.87	27.16	27.5	26.9	24.8	25	25.38	25.46	23.8

Table 2: Margins stable at 3.7%

(%)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
NIM	3.4	3.5	3.4	3.7	3.6	3.6	3.7	3.7	3.7
Yield on advances	12.7	12.8	12.7	12.7	13.0	12.9	12.8	12.6	12.5
Cost of funds	7.7	7.8	7.8	7.6	7.9	7.9	7.8	7.7	7.8

Table 3: Other income supported by treasury and forex income

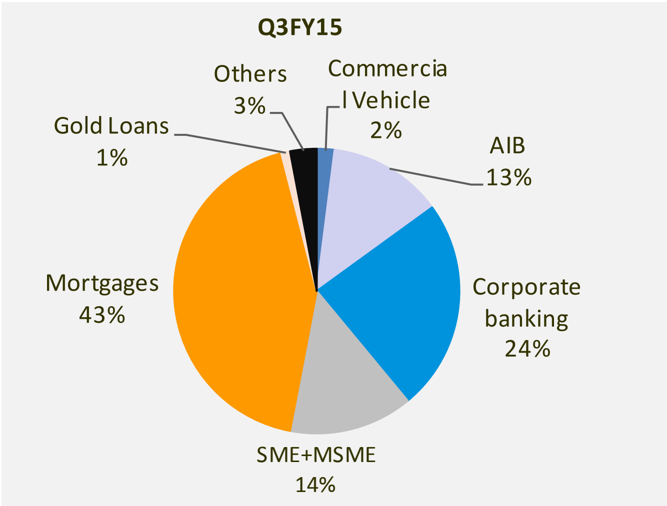
(INR mn)	Q3FY15	Q3FY14	*YoY*	Q2FY15	*QoQ*
Commission, exchange and brokerage	307	267	*15.0*	309	*(0.6)*
Profit on sale of investments	126	21	*500.0*	40	*215.0*
Exchange transaction	27	18	*50.0*	15	*80.0*
Miscellaneous	20	22	*(9.1)*	7	*185.7*
Total	**480**	**328**	***46.1***	**370**	***29.8***

Table 4: GNPLs stable

(INR mn)	Q3FY15	Q3FY14	*YoY*	Q2FY15	*QoQ*
Personal loan	3	235	*(98.7)*	2	*50.0*
CV/CE/STVL	76	239	*(68.2)*	60	*26.7*
Corporate	261	542	*(51.8)*	267	*(2.2)*
Others	1,452	1,063	*36.6*	1,359	*6.8*
Total NPLs	**1,792**	**2,079**	***(13.8)***	**1,688**	***6.2***

Source: Company

Chart 1: Higher focus on secured lending



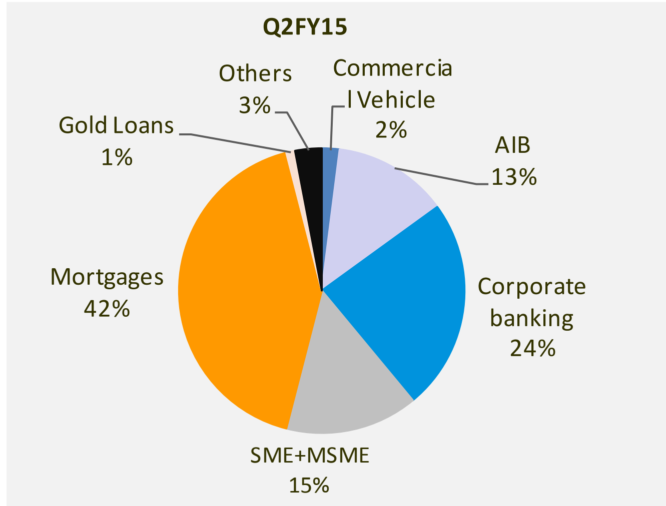
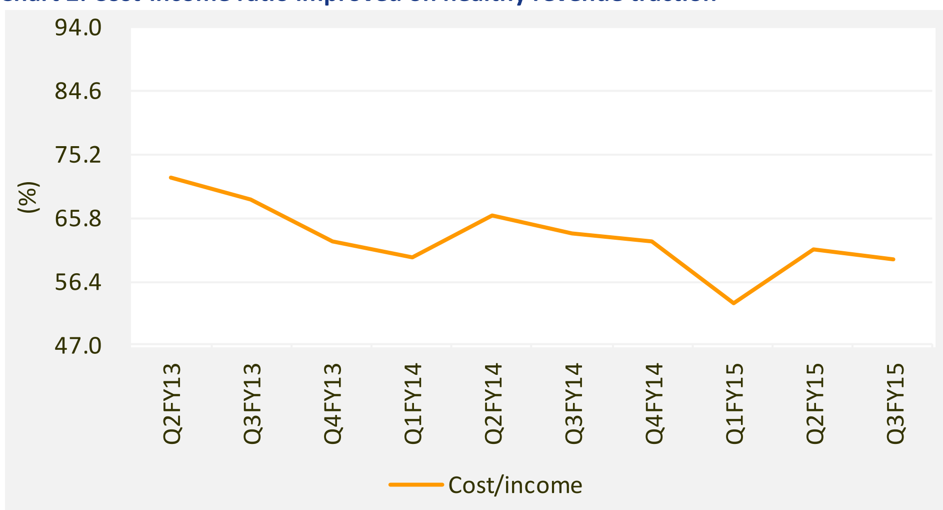


Chart 2: Cost-income ratio improved on healthy revenue traction



Source: Company

Financial snapshot (INR mn)

Year to March	Q3FY15	Q3FY14	*% change*	Q2FY15	*% change*	YTD15	FY15E	FY16E
Interest income	3,565	2,908	*22.6*	3,349	*6.5*	10,436	14,336	17,450
Interest exp	2,346	1,968	*19.2*	2,172	*8.0*	6,650	8,976	11,109
Net int. inc. (INR mn)	1,219	940	*29.7*	1,177	*3.6*	3,786	5,360	6,340
Other income	480	328	*46.1*	370	*29.8*	1,194	1,518	1,909
Operating expenses	1,015	805	*26.2*	948	*7.1*	2,885	1,368	1,659
Staff expense	495	395	*25.3*	474	*4.4*	1,432	3,853	4,438
Other opex	520	410	*27.1*	474	*9.8*	1,454	1,937	2,256
Pre prov op profit (ppop)	684	464	*47.5*	598	*14.2*	2,095	1,916	2,182
Provisions	184	100	*84.4*	137	*34.0*	551	2,875	3,561
Profit before tax	499	364	*37.3*	461	*8.3*	1,544	664	757
Provision for taxes	74	-		50	*48.5*	-	2,361	3,054
PAT	425	364	*16.9*	411	*3.4*	1,282	1,889	2,138
Diluted EPS (INR)	1.5	1.4	*6.3*	1.6	*(5.0)*	4.9	6.7	7.6
Ratios								
NII/GII (%)	34.2	32.3		35.1		36.3	37.4	36.3
Cost/income (%)	59.8	63.4		61.3		61.9	56.0	53.8
Provisions / PPOP	26.9	21.6		23.0		26.3	23.1	21.3
Tax rate (%)	14.9	-		10.9		-	20.0	30.0
Balance sheet data (INR bn)								
Advances	95	74	*28.9*	88	*7.9*	95	104	129
Deposits	118	96	*23.5*	109	*8.7*	118	119	147
Capital adequacy (%)	14.4	12.9		13.0		14.4	88	88
CD ratio (%)	80.1	76.7		80.7		80.1	13.7	13.2
Asset quality								
Gross NPA	1,792	2,079	*(13.8)*	1,688	*6.1*	1,792	1,623	1,833
Gross NPA (%)	1.9	2.8		1.9		1.9	1.5	1.4
Net NPA	952	570	*66.8*	943	*0.9*	952	971	913
Net NPA (%)	1.0	0.8		1.1		1.0	0.9	0.7

DCB Q3FY15 earnings call highlights

Balance sheet highlights:

- ***CV portfolio*** *– Earlier, focus was on buying portfolio to achieve PSL. Now,* ***focus is to create own CV portfolio*** *which will also help in bridge PSL portfolio. 80-90% of CV portfolio is PSL compliant. Further, uptick seen with recovery in economy.*
- ***Gold loan portfolio*** *– majorly constitutes retail section which has offers better yields. than gold loan companies.* ***Not much NPA seen*** *in this portfolio. Gold loan seen as an integral part of offering with dedicated sales force. Gold loan portolio in urban constitutes of non agri gold loan while that in rural constitutes of agri as well as non agri gold loan.*
- ***Mortgage book*** *– Bank* ***restricts loans greater than INR 30 mn with an average LTV in the range of 70 – 75%*** *and ATS of INR 4.5 – 5 mn. Uptick in book on account of new branches as well as dedicated sales force. Geographically, 15 critical markets contributes 80 – 85% of book.*
- ***Deposit ratio – wholesale to retail deposit rate is 30:70****. Inspite of softening of wholesale deposit rate, bank continues to focus on retail deposit since it envisages improving CASA ratio from the retail deposit holders.*
- ***Build up of CASA -*** Concentration on self employed section for building CASA rather than corporate section.
- ***Working capital book*** *– 80% SME book constitutes working capital and 50 – 55% corporate loan book is working capital.*

Income statement highlights:

- ***NIMs*** – NIMs though has sustained at high levels of 3.7% though management expects pressure over the next couple of quarters since bank has not been able to meet its PSL targets within direct agri and weaker section requiring them to invest in low yielding bonds of NABARD / RIDF.
- ***Treasury income – Treasury income of INR 80 mn*** over and above normal run rate owing to softening of G-sec bonds. Corollarly to this, ***investment book was also built solely for the purpose of trading on movements in G-sec yields***. The said book has been partly liquidated and will continue to be liquidated depending on the G-sec yield scenario.
- ***Non-interest income*** *– Efforts to train staff, obtain certification in progress to* ***achieve higher cross sell of bancassurance, mutual funds, forex and trade products.*** *Good* traction seen in ATM fees, loan processing fees, trade income of SME book.

Asset quality:

- **Restructured book stand at INR 1098.7mn** comprising of 8 accounts
- **Movement of NPL:** Slippage – INR 222.6 mn , Recovery/upgrades – INR 119.3mn, write-off – INR 0 mn. Most of slippages from SME / MSME.
- **Provision at INR 18 crore**: NPAs - INR 6.7 crs, Restructured Asset - INR 4crs, Specific standard asset provisions – INR 4 crs; balance towards floating provisions, unhedged foreign currency exposure.

Other highlights:

- Underlying cost / income ratio coming down excluding new branches added
- **The new branches are expected to break even in 18-22 months depending on size and location**

Outlook and Growth plans

- ***Intend to keep approximate mix of Retail / Mortgages 40%; MSME / SME 15 to 20%; Agri and Inclusive Banking (AIB) 15 to 20% andCorporate 20 to 25%***
- ***Expect slight pressure on NIMs from current levels (due to longer duration mortgage book ought to reprice faster than term deposits, call for the RIDF)***
- Aim to grow non funded income by 12 to 14% every year.
- Reduce cost / income ratio by 2 to 3% every year i.e. reaching cost income ratio of 50 – 52 by 30 to 35 months
- Double balance sheet in 36 to 42 months
- Looking to add 25-30 branches per year with 50% branches in Tier 2 to Tier 6 locations. Target locations AP, Chattisgarh, Delhi, Karnataka, Gujarat, Haryana, MP, Maharashtra, Odisha, Punjab, Rajasthan and TN. Location where competition is not stiff with limited competitors.
- ***Effective tax rate for the YTD @ 15% and full tax rate to kick in from FY16***. Therefore, ROE and ROA for FY 2016 is expected to be lower than FY 2015. The aim is to build back the ROE and ROA to 1.35% and 14% respectively in 18 months from the end of FY 2016. This is likely to be achieved by consistent profitable growth.

Relevant data-points

NRI deposit – crossed INR 10bn

Q2FY15 earnings call highlights

Key highlights

- ***Slippage during the quarter was INR418.2mn - largely driven by two accounts in corporate banking (INR120mn) and AIB(INR75mn) - bank have adequate collateral against these and expect the recovery going forward.*** Balance slippages are granular in nature.
- Bank highlighted stress in couple of corporate accounts which needs to be monitored
- ***Restructured book stand at INR830mn.***
- Movement of NPL: Slippage - INR418.2mn , Recovery/upgrades - INR190mn, write-off - INR30mn.
- Provision composition : Standard Asset : INR35crs, Floating provisions - INR20mn, Specific standard asset provisions - INR17.6mn (prudent provisioning on SME/corporate accounts which have been consistently been on watch list),NPA- ~INR70mn
- ***Operating expenses during the quarter registered 21% growth (higher than its historical run-rate) following investment in infrastructure (branch expansion), expect the new branch to break even in 18-22 months.***
- There was no sale to ARC during the quarter.

Outlook

- Advance growth target of 25-27% in FY15
- Deposit growth of target of 24-26% in FY15.
- CD ratio targeted to be below 80%.
- ***Expect slight pressure on NIMs from current levels (due to yield pressure, call for the RIDF of INR1.69bn and focus on better rated corporates).***
- Looking to add 30-35 branches per year.
- Tax rate for H2FY15 will likely be 15-17%
- Looking to attract customers deposits in lower tenure and thus are planning to launch the scheme over next couple of months.
- With full tax rate kicking in FY16 bank expects RoA to dip to 95-100bps in FY16 and then plan to inch-up to current level over next 18months. Similar trend will be visible RoE which are likely to dip to 10.2-10.25% and inch up again to 14% over next 18 months.

Relevant data-points

- ***Mortgage book composition - LAP @ 70%, Home loan @ 30%.***
- Of the LAP portfolio 90% are self employeed category - operating below INR30mn ticket (maximum) and INR4-5mn (average)

Company Description

DCB Bank is a modern emerging new generation private sector bank with 142 branches across 15 states and 2 union territories. It is a scheduled commercial bank regulated by the Reserve Bank of India. DCB Bank has contemporary technology and infrastructure including state of the art internet banking for personal as well as business banking customers.

DCB Bank's business segments are retail, micro-SMEs, SMEs, mid-Corporate, Agriculture, commodities, government, PSUs, Indian banks, co-operative banks and Non- Banking Finance Companies (NBFCs).

DCB Bank has deep roots in India since its inception in 1930s. Its promoter and promoter group the Aga Khan Fund for Economic Development (AKFED) & Platinum Jubilee Investments Ltd holds over 19% stake. AKFED is an international development enterprise. It is dedicated to promoting entrepreneurship and building economically sound companies

Investment Theme

After undergoing structural transformation under Mr.Natrajan and his team, the bank has all the enablers in place to tread the growth path and is well poised to deliver its FY15 operational goals on the profitability metrics. With capital in place and a strong management, the bank is geared to move to the next level of improving RoA further by tackling cost-to-income ratios. Strengthened risk management system coupled with strategic focus on secured segment will ensure maintenance of asset quality metrics.

Key Risks

- Small balance sheet size renders it vulnerable to any lumpy slippages due to economic downturn and may adversely affect bank profitability
- Competition from existing players which are getting incrementally aggressive in retail and new players when RBI issues licenses
- The major risk that the bank is facing is human capital. With most of the core team members sticking together through tough times, a unique concentration of employees has been created. Also with new banking license there can be a huge demand for human capital posing a risk for the bank

Financial Statements

Key Assumptions

Year to March	FY14	FY15E	FY16E	FY17E
Macro				
GDP(Y-o-Y %)	4.7	5.4	6.3	7.3
Inflation (Avg)	9.5	6.8	5.5	5.5
Repo rate (exit rate)	8.0	7.8	6.8	6.3
USD/INR (Avg)	60.5	61.0	62.0	62.0
Sector				
Credit growth	14.0	16.0	18.0	18.0
Deposit growth	15.0	16.0	18.0	18.0
CRR	4.0	4.0	4.0	4.0
SLR	23.0	23.0	23.0	23.0
G-sec yield	8.5	7.8	7.0	7.0
Company				
Operating metric assumptions (%)				
Yield on advances	11.8	11.9	12.0	12.0
Yield on investments	7.7	7.5	7.3	7.1
Yield on asset	9.7	10.2	10.0	10.0
Net interest margins	3.2	3.8	3.6	3.6
Cost of funds	6.9	6.8	6.7	6.7
Cost of deposits	7.1	7.3	7.5	7.4
Cost of borrowings	8.0	7.7	7.7	7.7
Spread	2.8	3.4	3.3	3.3
Balance sheet assumption (%)				
Credit growth	24.1	28.0	24.0	24.0
Deposit growth	23.4	15.1	24.0	24.6
SLR ratio	25.2	24.5	24.5	24.5
Low-cost deposits	25.0	25.8	25.9	26.0
Gross NPA ratio	1.7	1.5	1.4	1.3
Net NPA ratio	0.9	0.9	0.7	0.5
Provision coverage	46.5	40.2	50.2	59.8
Incremental slippage	1.4	1.5	1.5	1.5
Net NPA / Equity	6.7	6.3	5.2	4.1
Capital adequacy	13.7	13.2	12.7	12.2

Income statement (INR mn)

Year to March	FY14	FY15E	FY16E	FY17E
Interest income	11,283	14,336	17,450	21,606
Interest expended	7,599	8,976	11,109	13,772
Net interest income	3,684	5,360	6,340	7,834
Non interest income	1,387	1,518	1,909	2,205
- Fee & forex income	1,067	1,248	1,459	1,705
- Misc. income	99	120	200	200
- Investment profits	221	150	250	300
Net revenue	5,071	6,878	8,249	10,039
Operating expense	3,191	3,853	4,438	5,114
- Employee exp	1,571	1,937	2,256	2,628
- Other opex	1,620	1,916	2,182	2,486
Preprovision profit	1,880	3,025	3,811	4,924
Provisions	366	664	757	901
Loan loss provisions	292	524	597	741
Investment depreciation	(2)	10	10	10
Other provisions	76	130	150	150
Profit before tax	1,514	2,361	3,054	4,024
Provision for tax	18	472	916	1,207
Profit After Tax	1,496	1,889	2,138	2,817
Diluted EPS (INR)	6.0	6.7	7.6	10.0

Growth ratios (%)

Year to March	FY14	FY15E	FY16E	FY17E
NII growth	29.5	45.5	18.3	23.6
Fees growth	10.6	16.9	16.9	16.9
Opex growth	15.9	20.8	15.2	15.2
PPOP growth	45.6	73.3	23.9	29.9
PPP growth	49.0	60.9	26.0	29.2
Provisions growth	52.1	81.6	14.0	19.0
Net profit	46.5	26.3	13.2	31.7

Operating ratios

Year to March	FY14	FY15E	FY16E	FY17E
Yield on advances	11.8	11.9	12.0	12.0
Yield on investments	7.7	7.5	7.3	7.1
Yield on assets	9.7	10.2	10.0	10.0
Net interest margins	3.2	3.8	3.6	3.6
Cost of funds	6.9	6.8	6.7	6.7
Cost of deposits	7.1	7.3	7.5	7.4
Cost of borrowings	8.0	7.7	7.7	7.7
Spread	2.8	3.4	3.3	3.3
Cost-income	62.9	56.0	53.8	50.9
Tax rate	1.2	20.0	30.0	30.0

Balance sheet				(INR mn)
As on 31st March	FY14	FY15E	FY16E	FY17E
Equity capital	2,503	2,808	2,808	2,808
Reserves & surplus	8,510	12,595	14,733	17,549
Net worth	11,014	15,402	17,540	20,357
Sub bonds/pref cap	650	650	650	650
Deposits	103,252	118,823	147,339	183,628
Borrowings	7,952	12,542	17,141	21,750
Other liabilities	5,970	14,878	18,628	23,260
Total liabilities	**128,837**	**162,295**	**201,298**	**249,644**
Loans	81,402	104,194	129,201	160,209
Cash and equivalents	6,896	11,466	14,299	17,841
Gilts	28,072	32,184	40,297	50,317
Others	8,270	7,769	9,634	11,946
Fixed assets	1,860	1,832	1,795	1,749
Other Assets	2,337	4,849	6,072	7,581
Total assets	**128,837**	**162,295**	**201,298**	**249,644**
Credit growth	24.1	28.0	24.0	24.0
Deposit growth	23.4	15.1	24.0	24.6
EA growth	15.1	24.9	24.3	24.2
SLR ratio	25.2	24.5	24.5	24.5
C-D ratio	79.2	88.1	88.1	87.7
Low-cost deposits	25.0	25.8	25.9	26.0
Gross NPA ratio	1.7	1.5	1.4	1.3
Net NPA ratio	0.9	0.9	0.7	0.5
Provision coverage	46.5	40.2	50.2	59.8
Incremental slippage	1.4	1.5	1.5	1.5
Net NPA / Equity	6.7	6.3	5.2	4.1
Capital adequacy	13.7	13.2	12.7	12.2
- Tier 1	12.9	12.4	11.9	11.4

RoE decomposition (%)

Year to March	FY14	FY15E	FY16E	FY17E
Net interest income/assets	3.2	3.8	3.6	3.6
Fees/Assets	1.0	1.0	1.0	0.9
Investment profits/Assets	0.2	0.1	0.1	0.1
Net revenues/assets	4.4	4.9	4.7	4.6
Operating expense/assets	(2.7)	(2.7)	(2.5)	(2.4)
Provisions/assets	(0.3)	(0.5)	(0.4)	(0.4)
Taxes/assets	-	(0.3)	(0.5)	(0.6)
Total costs/assets	(3.1)	(3.6)	(3.5)	(3.3)
ROA	1.3	1.3	1.2	1.3
Equity/assets	8.8	9.4	9.4	8.7
ROAE (%)	14.6	14.3	13.0	14.9

Valuation parameters

Year to March	FY14	FY15E	FY16E	FY17E
Diluted EPS (INR)	6.0	6.7	7.6	10.0
Y-o-Y growth (%)	*46.4*	*12.6*	*13.2*	*31.7*
Book value per share (INR)	44.0	54.9	62.5	72.5
Adjusted book value per share	41.9	52.4	60.2	70.4
Diluted PE (x)	19.7	17.5	15.4	11.7
Price/ Adj. BV (x)	2.8	2.2	2.0	1.7
Price to income (x)	10.6	10.0	8.6	7.5

Peer comparison valuation

	Market cap	Diluted PE (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	(USD mn)	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
DCB Bank	532	17.5	16.5	2.2	2.0	14.3	12.2
Axis Bank	18,997	15.8	12.8	2.7	2.3	18.0	19.0
Federal Bank	2,039	12.4	9.7	1.7	1.5	13.9	15.8
HDFC Bank	37,487	22.5	18.3	4.5	3.8	21.6	22.3
ICICI Bank	31,391	17.0	14.5	2.9	2.5	14.8	15.6
IndusInd Bank	6,951	23.6	18.9	4.1	3.5	18.6	19.7
ING Vysya	2,981	23.9	18.5	2.5	2.2	10.5	12.4
Karnataka Bank	421	6.4	5.4	0.9	0.8	12.8	13.8
South Indian Bank	662	6.7	5.6	1.2	1.0	17.5	18.3
Yes Bank	5,281	16.6	13.0	2.8	2.4	20.9	19.8
AVERAGE	-	16.2	13.3	2.5	2.2	16.3	16.9
Median	-	3.2	2.7	0.4	0.4	5.3	6.1

Source: Edelweiss research

Additional Data

Directors Data

Nasser Munjee	Chairman	Murali M. Natrajan	Managing Director & CEO
Altaf Jiwani	Director	Amin Manekia	Director
Suhail Nathani	Director	Imran Contractor	Director
Keki Elavia	Director	C. Narasimhan	Director
Nalin Shah	Director	S. Sridhar	Director
Jamal Pradhan	Director	Shaffiq Dharamshi	Director

Auditors - B S R & Co

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
Tano Mauritius India FVCI	4.67	Sundaram Asset Management	4.45
WCP Holdings 111	4.18	Ambit Corporate Finance	3.72
Prudential ICICI Asset Mgmt	3.52	PI Opportunities Fund I	2.81
Bajaj Allianz Life Insurance	2.53	DSP Blackrock Investment Manager	2.26
IL&FS Trust	2.23	Dimensional Fund Advisors LP	2.17

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Dec 2014	Narendranath Mishra	Sell	20000.00
24 Nov 2014	Mr. R. Venkattesh	Sell	20000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SO	L	Bank of Baroda	BUY	SO	M
Development Credit Bank	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IndusInd Bank	BUY	SO	L
Infrastructure Development Finance Co Ltd	BUY	SO	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	HOLD	SP	M	Manappuram General Finance	BUY	SP	H
Max India	BUY	SO	L	MCX	UNDER REVIEW	None	None
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	HOLD	SP	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SP	M
Shriram Tansport Finance	BUY	SO	L	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	BUY	SP	M
Yes Bank	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: *research@edelweissfin.com*

Coverage group(s) of stocks by primary analyst(s):

Allahabad Bank, Axis Bank, Bajaj Finserv, Bank of Baroda, Development Credit Bank, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Max India, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Tansport Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
14-Jan-15	**YES Bank**	Retail journey on track; *Result Update*	787	Buy
13-Jan-15	**IndusInd Bank**	Stable quarter; *Result Update*	826	Buy
12-Jan-15	**Indiabulls Housing Finance**	Pragmatic mover; *Initiating Coverage*	496	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

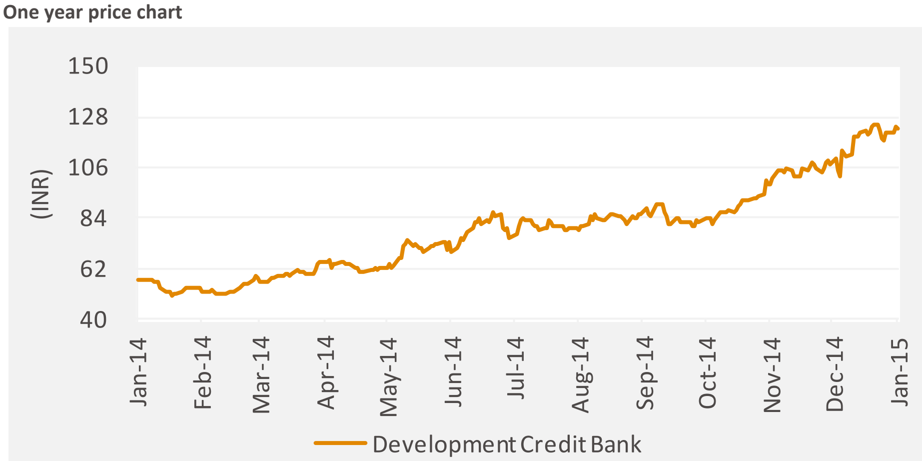
	Buy	Hold	Reduce	Total
Rating Distribution* * 1 stocks under review	150	46	10	207

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	143	58	6

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

This report has been prepared by Edelweiss Securities Limited (Edelweiss). This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Edelweiss is committed to providing independent and transparent recommendation to its clients. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

Edelweiss shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the Edelweiss to present the data. In no event shall the Edelweiss be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the Edelweiss through this report.

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Enclave Capital, LLC ("Enclave"). Transactions in securities discussed in this research report should be effected through Enclave Capital, LLC.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”).

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations)

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its associates are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance. There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer. Research reports are distributed as per Regulation 22(1) of the Regulations. An application is filed for obtaining registration under Regulation 3 of the Regulations.