DCB Bank

BUY

INDUSTRY	BANKS
CMP *(as on 20 Nov 2014)*	Rs 103
Target Price	Rs 126
Nifty	8,402
Sensex	28,068
KEY STOCK DATA	
Bloomberg/Reuters	DCCB IN/DCBA.BO
No. of Shares (mn)	281
MCap (Rs bn) / ($ mn)	29 / 470
6m avg traded value (Rs mn)	121

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 107 / 47		
	3M	6M	12M
Absolute (%)	24.7	55.6	115.8
Relative (%)	18.0	40.4	79.8

SHAREHOLDING PATTERN (%)	
Promoters	18.42
FIs and Local MFs	16.35
FIIs	14.84
Public and Others	50.39

Source : BSE

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DCB Ver 2.0

Over the last four years, DCB Bank's management has meticulously nursed back an ailing business (3% NNPA, 81% C-I in FY10) to good health. The improvement on both the crucial parameters (1.1% NNPA, ~61% C-I) is doubly creditable as it has been achieved in the face of macro headwinds and with steadily increasing granularity.

Driven by further improvement in C-I as well as expanding NIMs, we think PPoP margins will hit ~3% by FY16E (+40bps over FY14). Higher tax provisions will limit RoA expansion, though.

We reckon a further re-rating is imminent, driven by (1) steady growth resulting in further oplev (2) stable and conservative management (3) adequate capital post the recent fund raise at Rs 82/sh. We believe DCB should trade at a premium to peers, given its superior growth and quality metrics. BUY with a TP of Rs 126 (1.8x FY17E ABV).

- ***Management-led turnaround to sustain :*** After posting Rs ~880/780mn loss in FY09/10, DCB's new management bounced back over FY11-14 to post broad based improvement across parameters (NIMs, asset quality and return ratios). This was achieved via diligent and meticulous revamp efforts, aimed mostly at the two key areas of weakness : high costs and bad asset quality. That the efforts worked despite challenging macros is a good indicator of management quality. We feel this improvement in core operations will sustain, and expect PPoP margins to improve ~40bps over FY14-17E.
- ***Operating efficiencies to improve further :*** Cost rationalization was one of the key levers at DCB. The bank's cost grew at merely 12% CAGR during FY10-14, improving core C-I by ~2,100bps to ~66% and C-AA by ~60bps to 2.6%. Focus on Tier II-VI cities (low cost branches), further control on costs (17% CAGR FY14-17E) and strong NII growth (24% CAGR) are expected to further improve efficiencies. **We expect C-I of 56% & C-AA of 2.5% by FY17E.**
- ***Building a granular book :*** With a conservative approach and a focus on relatively safer mortgage loans, the bank's Corp/SME proportion fell to ~24/16%. The aggregate loan book continued to grow led by mortgages (42% of loans in FY14). **We expect a CAGR of 24% in loans for FY14-17E, with a continued focus on mortgages and a revival in SME/MSME.**
- ***Providing comfort on quality :*** DCB's conservative approach, focus towards granular secured loans, strategic exit from select corporate/SME exposures and higher W/Os led to an improvement in asset quality. G/NNPAs are at 1.9/1.1% with PCR at 77% (Sep-14). **We are factoring slippages of 1.1% and non tax provisions of 55bps over FY15-17E.**

FINANCIAL SUMMARY

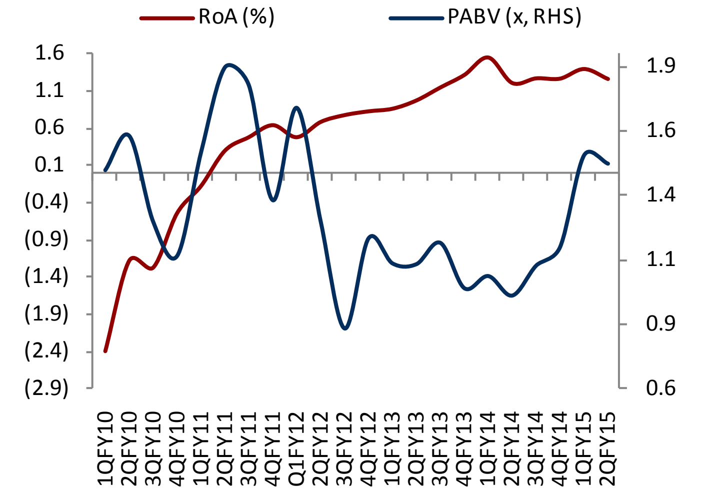
YE Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	2,844	3,684	5,086	5,839	6,925
PPP	1,261	1,880	2,884	3,384	4,105
PAT	1,021	1,514	1,870	2,177	2,725
EPS	4.1	6.0	6.7	7.8	9.7
EPS growth (%)	85.3	48.3	23.6	16.4	25.2
RoAE (%)	11.0	14.1	13.7	12.8	14.1
RoAA (%)	1.02	1.25	1.32	1.28	1.33
Adj BV	38.0	43.0	52.9	61.0	70.1
P/ABV (x)	2.71	2.39	1.95	1.69	1.47
P/E (x)	25.2	17.0	15.5	13.3	10.6

Source: Company, HDFC sec Inst Research

Strategy opted since FY10

- Rely on retail deposits (retail term + CASA : ~75% of total deposit).
- Grow retail mortgages and MSME/SME. Offer granular products viz. CV, Tractors, Gold, Mid Corp & Agri loans.
- Avoid unsecured & big ticket lending and create a diversified portfolio.
- Increase fee income by cross selling third party products and trade & cash management
- Continuously strengthen credit processes, recoveries and portfolio management
- Relentlessly focus on liquidity, costs, operational risks, people and customer service.
- Expand branches primarily in Tier II to Tier VI locations

Rerating is imminent



Source : Bank, HDFC sec Inst Research

IMPROVING ON ALL THE BUSINESS MATRIXES

	Parameter	Performance						
		Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Sep-14
Strategy								
Rely on Retail Deposits (TD & CASA)	Retail Deposits	83.9%	81.5%	79.8%	78.7%	79.0%	77.0%	82.8%
Focus on retail mortgage and SME	Mortgage	8.0%	12.0%	25.0%	29.0%	36.0%	38.0%	42.0%
	SME +MSME	14.0%	17.0%	24.0%	27.0%	23.0%	16.0%	15.0%
Avoid unsecured lending	PL /CV /CE	27.0%	11.0%	2.2%	2.5%	2.0%	2.0%	2.0%
Strengthen credit process	GNPA	8.4%	8.7%	5.9%	4.4%	3.2%	1.7%	1.9%
	NNPA	3.9%	3.1%	1.0%	0.6%	0.8%	0.9%	1.1%
	PCR	58.4%	66.3%	84.3%	87.5%	77.1%	46.5%	44.1%
	PCR (reported)	56.2%	70.0%	87.6%	91.2%	85.7%	80.5%	76.8%
Relentless focus on cost	C/I Ratio	76.3%	80.6%	71.4%	74.5%	68.6%	62.4%	61.3%
	Core - C/I Ratio	76.7%	86.8%	78.0%	77.2%	71.0%	63.7%	62.9%
	C/ Avg Assets	3.6%	3.3%	3.2%	3.0%	2.8%	2.7%	2.9%
Outcome								
	NIM	2.9%	2.8%	3.1%	3.3%	3.3%	3.6%	3.7%
	RoA	-1.3%	-1.3%	0.3%	0.7%	1.0%	1.3%	1.3%
	RoE	-14.3%	-13.1%	3.5%	7.5%	11.0%	13.8%	13.5%

Source : Bank, HDFC sec Inst Research

FY10-14 performance

Loans : *24% CAGR driven by mortgage (38% of loans vs. ~25/29% in FY11/FY12)*

Deposits : *21% CAGR with retail deposits (CASA and Retail TD) maintained between ~75-80%*

NIM : *improved 70bps owing to gradual rise in C-D ratio and improvement in asset quality*

Operating efficiency: *Core C-I improved to ~66% from 87% & core C-AA improved by ~70bps to 2.6%*

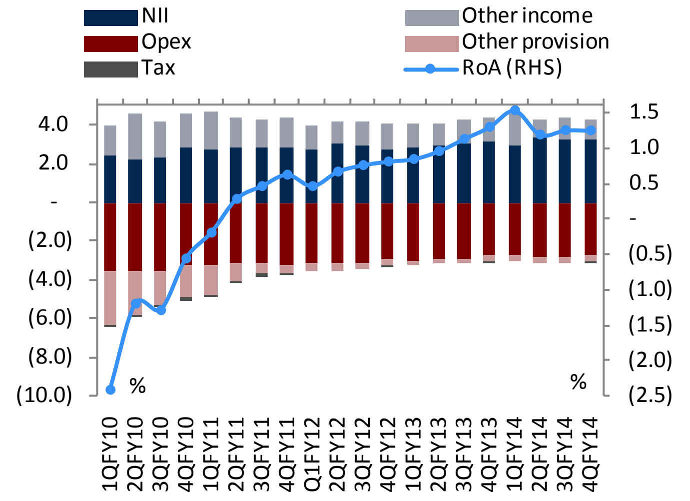
Asset quality : *Lower slippages led to significant improvement with GNPA improvement with GNPA reduced to 1.7% from 8.7%*

Provision (ex tax) *declined 26% CAGR, forming 28bps of asset vs. 197/77bps in FY10*

Thus, delivering RoAs of 1.2%+ for consecutive years

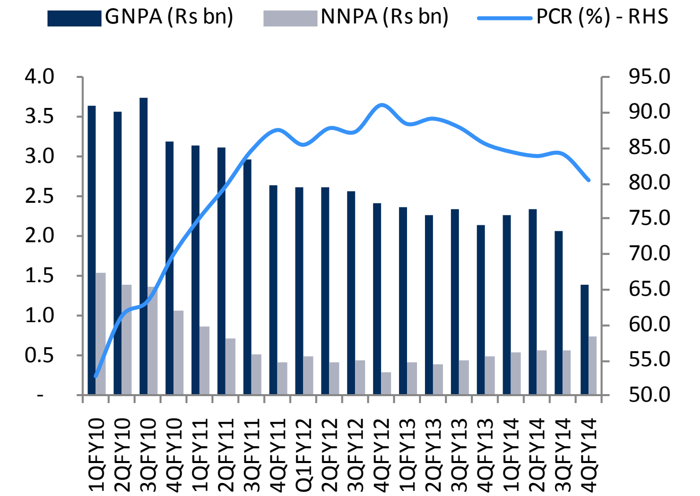
Steady improvement visible across business parameters.

RoA inched up to +1.2% : sustainable in our view

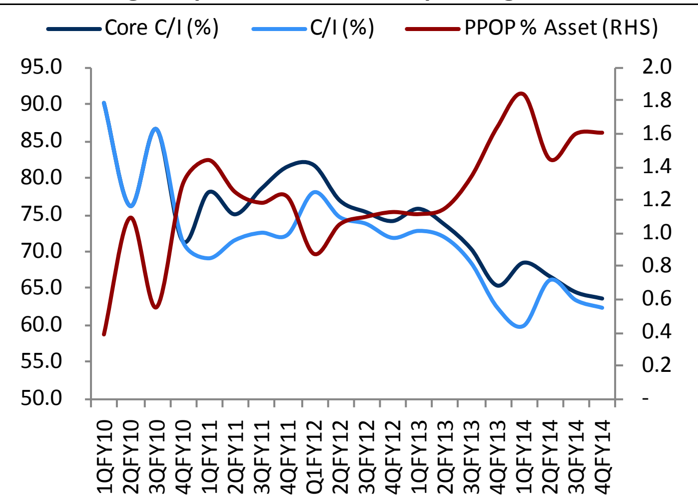


Source : Bank, HDFC sec Inst Research

Asset Quality continued to improve

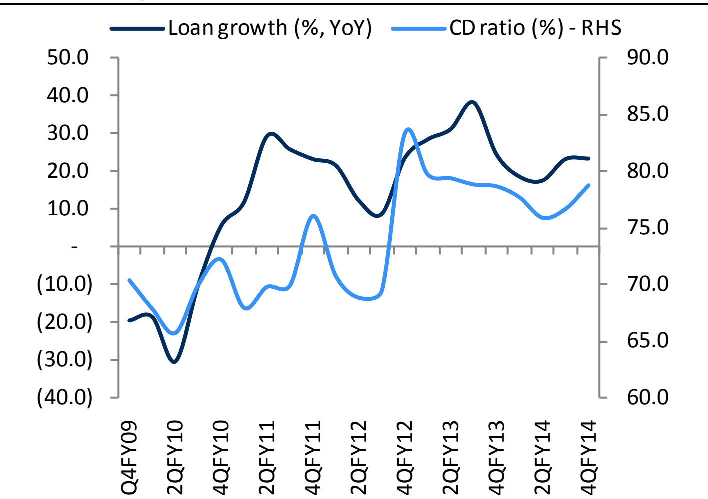


Well managed opex: core C/I on improving trend



Source : Bank, HDFC sec Inst Research

Stable loan growth; comfortable CD (%)



Source : Bank, HDFC sec Inst Research

Performance to sustain

During FY14-17E, we expect

Loans: *24% CAGR expected, with focus on secured mortgage and small ticket SME/MSME segment*

Core earnings: *24% CAGR with steady avg. NIM at ~3.5%*

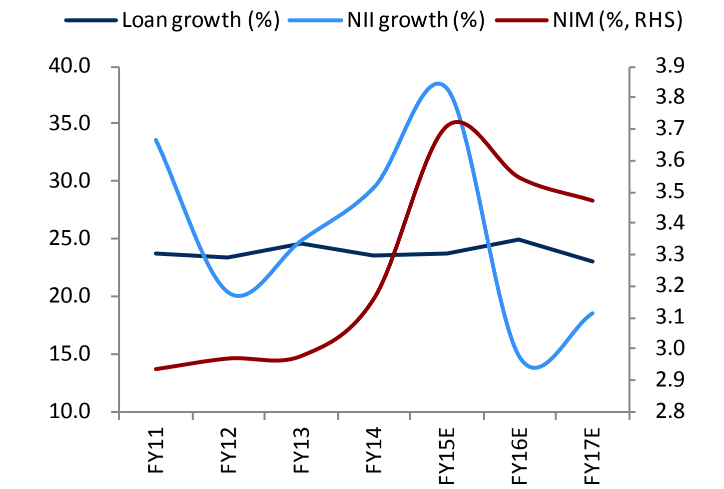
Opex: *17% CAGR (16% CAGR in FY10-14) vs. total revenue of 22% CAGR. Thus, Operating efficiency: (C-I ratio) to improve further to ~55.5%*

Asset quality : *remain conservative and factor slippages of 1.1% and non-tax provision of ~55bps for FY14-17E*

Net earnings: *20% CAGR, largely driven by operating efficiencies, though partly impacted as tax provision kicks in*

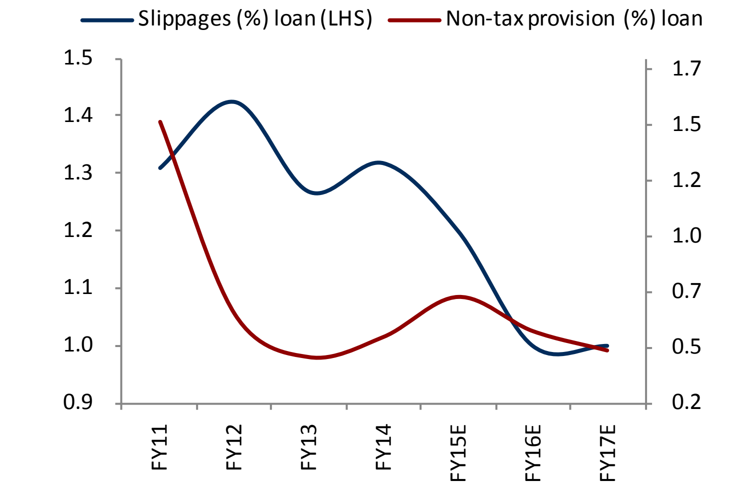
Return ratios : *RoA expected to remain steady at ~1.3% by FY16E.*

NII driven by steady loan gorwth and NIM improvement



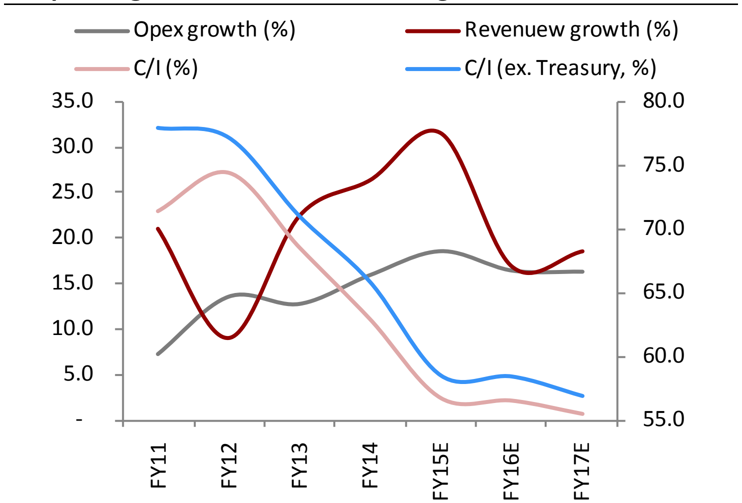
Source : Bank, HDFC sec Inst Research

Slippages of ~1.1% and 55bps non tax prov. over FY14-17E



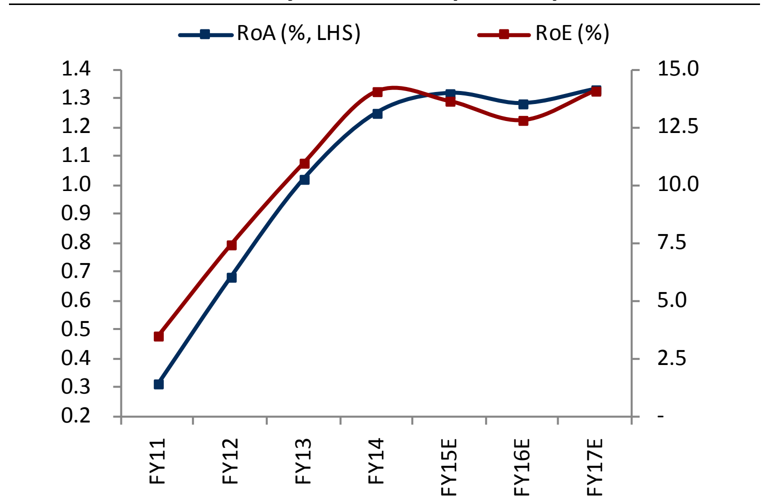
Source : Bank, HDFC sec Inst Research

Improving efficiencies : C-I trending low



Source : Bank, HDFC sec Inst Research

RoAs to remain steady at 1.3%, despite tax provisions

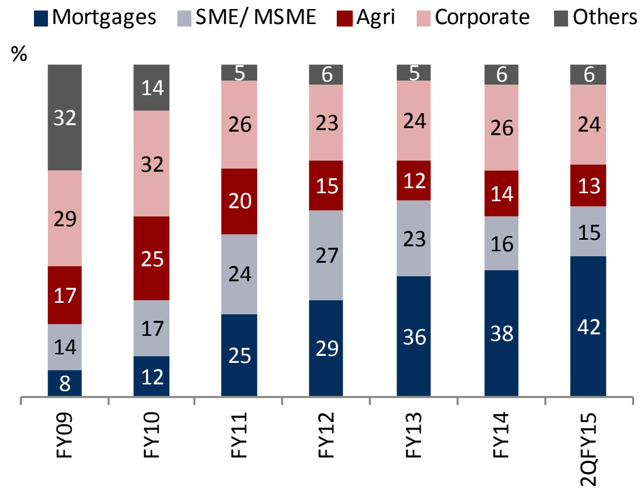


Source : Bank, HDFC sec Inst Research

Focus on secured loans

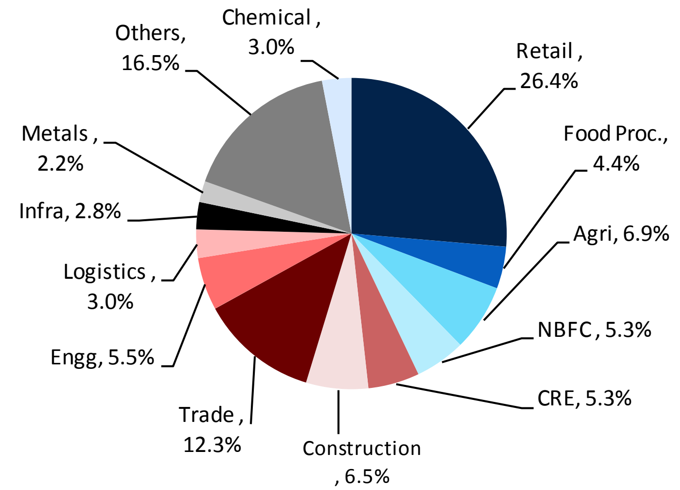
- Run-away growth in unsecured loans (~27% of the book) during FY06-08, led to severe impact on asset quality and earnings (reported losses) during FY09-10. DCB changed its focus towards de-risking its loan portfolio by focusing on secured lending (mortgages and SME/MSME) and avoiding/exiting high ticket exposures.
- Thus during FY10-14, strong growth in mortgage (37%+ CAGR) & SME/MSME (22% CAGR) segments led to 24% CAGR loan growth. Further, slow growth of ~17% CAGR in corp book was vindicated with the continued decline in top 20 exposures from 21.5% (FY10) to 10.8% (FY14).

Loan book break up : skewed towards mortgages



Source : Bank, HDFC sec Inst Research

Diversified exposure : Sept-14

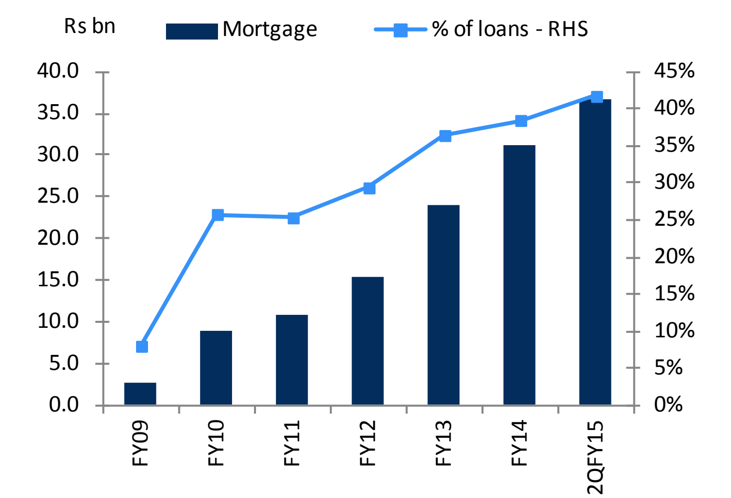


Source : Bank, HDFC sec Inst Research

Mortgages : Key growth driver

- Mortgages remain the key focus area within DCB's strategy of secure lending. During FY10-14, Mortgages grew ~37% CAGR to Rs 31bn (38% of loans vs. 26% in FY10). **Further, as on Sept-14, bank's mortgages book increased to ~Rs 36.6bn i.e. 42% of loans.**
- The bank sources ~80% of these loans through various referrals (pays ~75-100bps as fees), while documentation, verification, approval, etc are done by in-house bank employees, thus providing comfort on asset quality.
- Mortgage book is skewed towards the LAP segment, forming 70% (vs. 50-55% earlier) with an avg. ticket size of ~Rs 5-5.5mn and LTVs of 65%.
- With deeper penetration (increase branch network and locations) and better risk management systems in place, we believe DCB is well placed to report healthy growth in the mortgage business.

Mortgage book : focus area, strong growth

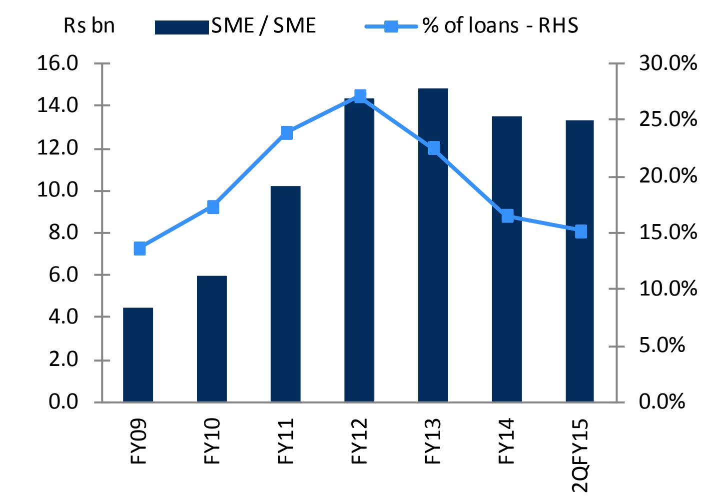


Source : Bank, HDFC sec Inst Research

SME/MSME : Cautious approach

- In 2010, DCB reoriented itself in a new character as a ***"Neighbor Banking"***, identifying SME/MSME as one of the growth avenues. During FY10-FY13, SME/MSME grew 35% CAGR to Rs 15bn (23% of loans).
- However, from H1FY13, to counter the increasing stress (owing to sluggish economy growth) in the SME segment, the bank has reduced the ticket size (~Rs 25-30mn vs. Rs 60-70mn earlier) and also exited ~35-40 accounts in a phased manner to protect its asset quality. Further, DCB has increased collateral to 100%+ (irrespective of internal SME grades) vs. 65-70% earlier. Hence, the SME proportion declined to ~16.6% (Rs 13.5bn) in FY14 and further to 15% (Rs 13.4bn) as on Sept-14.
- With ~80% loan origination through its own branches and balanced approach provide higher comfort and strengthens our stance on quality of the business.

SME : conservative approach in tough enviornment

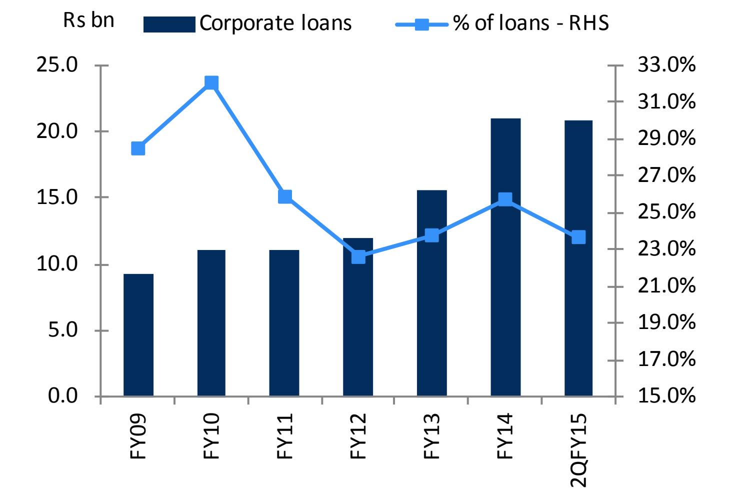


Source : Bank, HDFC sec Inst Research

Corporate loans : Being conservative

- As per the stated strategy, to build a well diversified/granular and secured loan book, DCB has gradually reduced its dependence on the large corp segment. DCB exited few large and stressed segments/accounts and reported Corp loan growth of 17% CAGR vs. overall loan growth of 24% during FY10-14.
- Large corp. proportion declined from a peak of ~36% to 26% in FY14 and further declined to ~23.7% as on Sept-2014. **As a conservative approach, banks' concentration to the top 20 borrowers declined gradually from 21.5% in FY10 to 10.8% in FY14.**

Corp book : growth to pick up as maro starts supporting



Source : Bank, HDFC sec Inst Research

Debulking Balance sheet : Reducing concentration risk

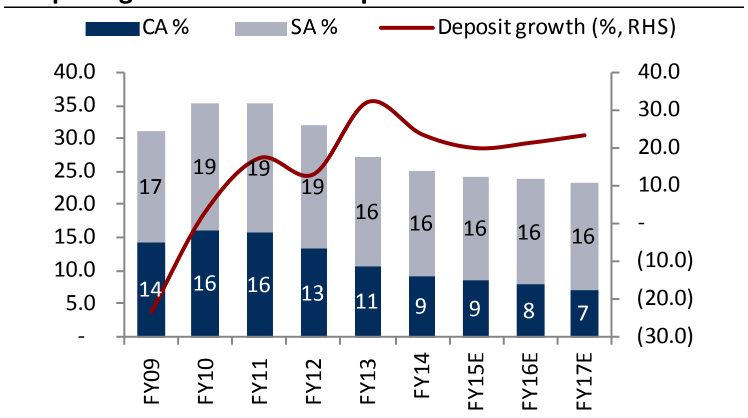
Top 20 (%)	FY10	FY11	FY12	FY13	FY14
Loans	21.5	17.0	14.5	11.9	10.8
Exposures	21.4	17.0	14.0	11.8	10.5
Deposits	20.6	18.0	15.6	18.3	17.2

Source : Bank, HDFC sec Inst Research

Rely on retail deposits

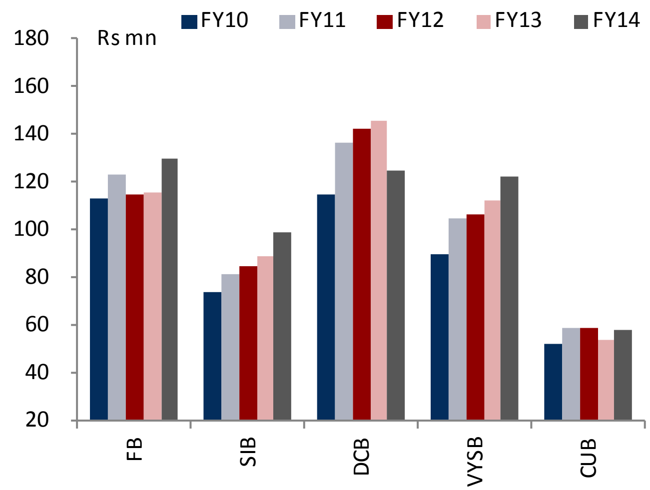
- Aggressive loan growth of ~48% CAGR during FY06-08 was largely funded by ~47% growth in term/bulk deposits (overall deposits growth of 39%). With the sharp rise in non CASA deposits, banks low cost proportion declined from 32% (FY06) to 24% (FY08).
- **However, in its renewed strategy, DCB continues to focus on retail deposits and de-bulking of balance sheet and aims to maintain the retail deposits (CASA + retail Deposits) proportion at ~75-80%.**
- In a view to curtail the rising interest rates, DCB made arrangements with various small co-operative banks to raise funds at comparatively lower rates. As on Mar-14, DCB garnered ~Rs 15bn from these co-operative banks and contained its CoF at ~7.9% (a mere 10bps rise in FY14). While CASA declined to 25% from a peak of 35% (FY11), the retail deposits (%) held up well at 77% (as per the strategy). During 1HFY15, DCB had reduced the proportion of funds raised through co-operative banks to Rs 9.7bn and improved the proportion of retail deposits to 83% and CASA to 25.5%.
- **Going forward, we have built in deposits growth of 23% CAGR over FY14-17E, with CASA proportion at ~23%.**

Deposit growth and break-up



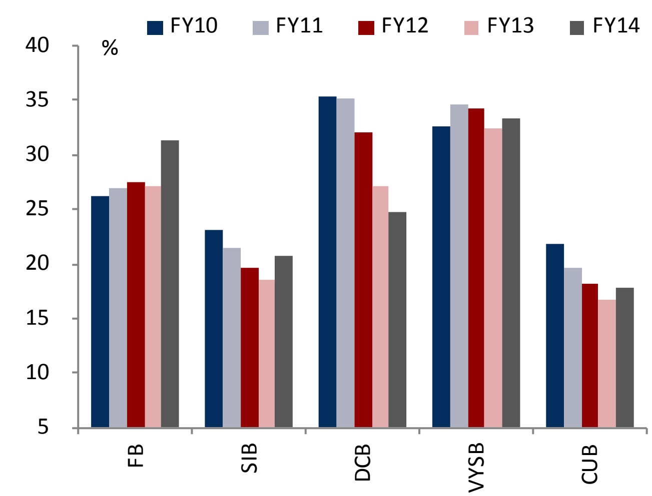
Source : Bank, HDFC sec Inst Research

SA/ Branch : better placed than regional players



Source : Bank, HDFC sec Inst Research

CASA (%) : Declining, but still better than a few peers.

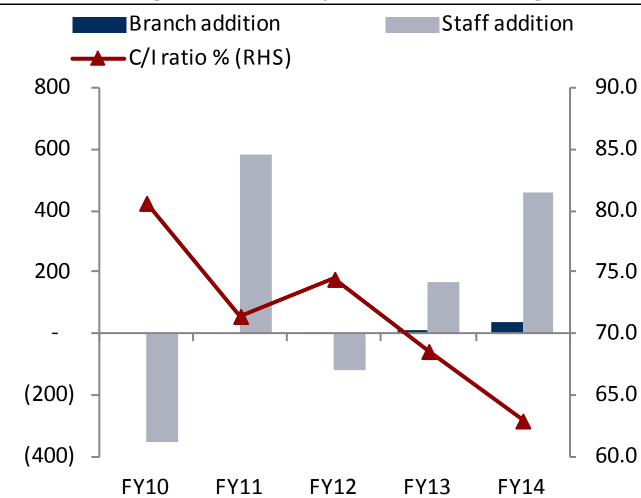


Source : Bank, HDFC sec Inst Research

Network : spreading wings after a brief pause

- After incurring losses during FY09-10, RBI restricted DCB from expanding its network (NIL branch additions during FY10-11). However, post removal of regulatory restrictions, bank started gradually building its branch network. During FY12 and FY13, DCB added 4 and 10 branches respectively.
- However in FY14, the bank stepped on the accelerator by adding 36 branches. **It plans to add ~30-35 branches /year and targets to reach 200+ branches by FY16.** With the focus on Tier II-VI cities (low cost structures), bank's operating cost for FY14 grew 16% YoY vs. revenues growth of ~26% YoY.
- The branch expansion would largely be in the Tier II – Tier VI cities (especially where DCB is the 1st or 2nd PVT Bank) with a focus on its core competence products like mortgages (LAP) and small ticket SME /MSME.

Charts showing Branches/ Opex and revenue growth



Source : Bank, HDFC sec Inst Research

Improving fundamentals led to upgrade in Credit Rating

- Bank's steady and continued improvement across business parameters instills confidence amongst the rating agencies too. We believe, with the continued improvement in business performance & recent fund raising, rating agencies too would consider an upgrade (last done in Dec-13), which is expected to further boost the healthy NIMs.

Gradual rating improvement

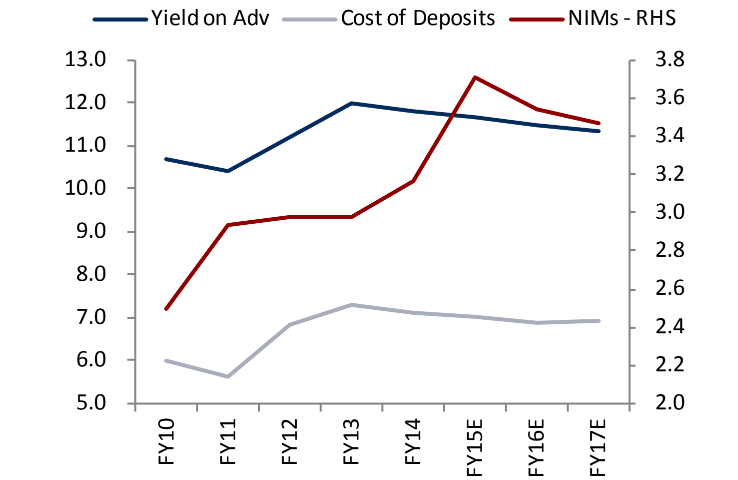
	Dec-12	Feb-13	Jun-13	Dec-13
CRISIL				
- LT	BBB+/Positive	A-/ Stable	A-/ Stable	A-/ Stable
- ST	A1	A1+	A1+	A1+
Brickworks	BWR A-/Stable	BWR A-/Stable	BWR A-/Stable	BWR A-/Stable
Fitch				
Fixed Deposits				A1+

Source : Bank, HDFC sec Inst Research

Margins : Expected to remain healthy

- DCB, over the last four years, has positively surprised with a consistent beat on margins. Reported NIMs improved from ~2.8% in FY10 to ~3.6% in FY14, driven by a combination of (1) higher C-D ratio, (2) rising proportion of high yielding loans, (3) steady retail deposits, controlled CoF (4) lower additions to stressed assets, (5) timely revision of base rates & (6) improvement in credit rating.
- The bank's calibrated approach towards growth & profit dynamics and the recent fund raising of Rs 2.5bn provide comfort on sustaining NIMs. **We expect calc. NIMs to improve 30bps to 3.5% over FY14-17E.**

Margins to remain healthy

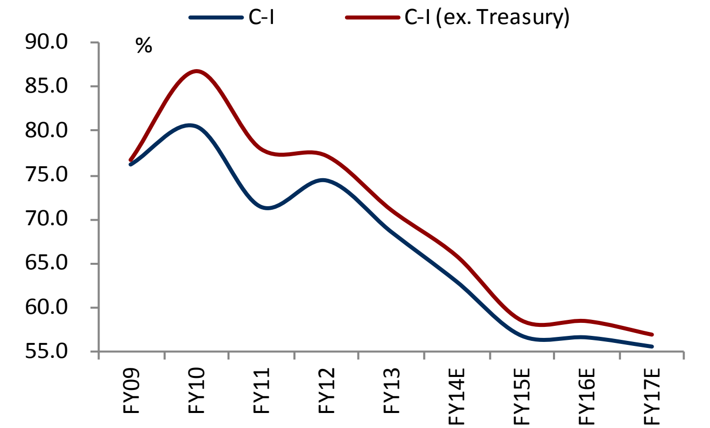


Source : Bank, HDFC sec Inst Research

Operating leverage : Key RoA driver

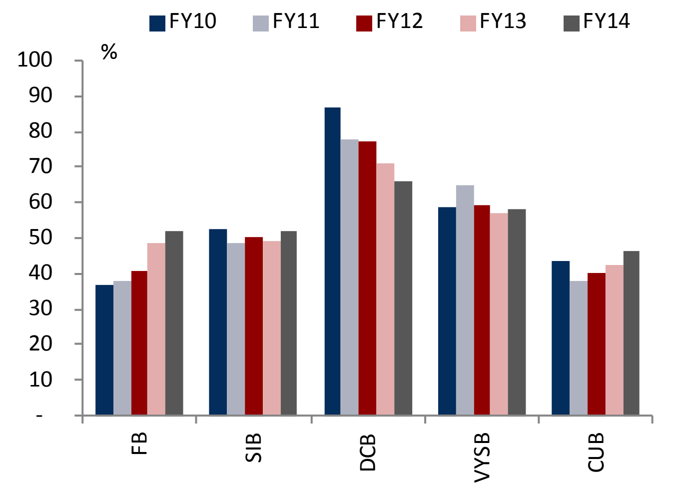
- With stress on the balance sheet, DCB opted for consolidation during FY09-10, which resulted in lower income growth (-15% CAGR). Despite, the cost control (-8% CAGR), efficiency ratios took a hit with C-I ratio rising to ~81% and C-AA increasing to 3.3% (one highest in the industry).
- Rationalizing cost was one of the key strategies for the new management in FY10. Over FY10-14, DCB's staff cost grew a mere 12% CAGR, despite adding ~630 employees. Further, other opex grew by 8% CAGR only, despite adding 50 branches. With ~24% loan CAGR and NIM improvements, banks C-I improved to ~63% (down ~2100bps) and C-AA stood at 2.6%, down ~60bps.
- **Going forward, with steady core earnings growth of 24% CAGR and controlled cost (17% CAGR), we expect C-I to improve to 55.5% and C-AA to 2.5% by FY17E.**

Operating efficency : improving trend



Source : Bank, HDFC sec Inst Research

Core C/I ratio improving; albeit higher amongst peers

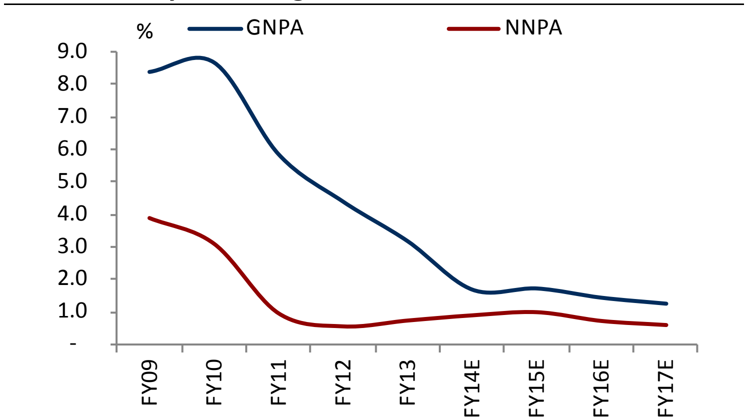


Source : Bank, HDFC sec Inst Research

Asset quality : to remain stable

- Between FY06-08, run-away growth in the bank's unsecured retail portfolio weighed on asset quality performance with Gross and Net NPAs touching a peak of 11.2% and ~5% respectively during H1FY10.
- However, during its consolidation and restructuring period, the bank focused on quality growth. DCB demonstrated its cautious approach over the last few quarters by exiting a few large ticket accounts, reducing the avg. ticket size of SME/ MSME book and emphasizing more on collaterals, reducing LTVs etc.
- The relentless focus on strengthening credit writing process led to a sharp improvement in asset quality further aided by higher write offs. As on Sep-14, GNPA and NNPA stood at 1.9% and 1.1% respectively with PCR of ~77%. **DCB has made marginal floating provisions of Rs 56mn (Sept-14) and std assets provisions of Rs 156mn (in 1HFY15), which further provides comfort on the bank's conservative approach.**
- Given bank's conservative approach towards quality (vs. growth) & guidance of a just two accounts being under stress, we **built-in lower slippages of ~1.1% for FY14-17E and non tax provisions of 55bps.**

Asset Quality : trending lower

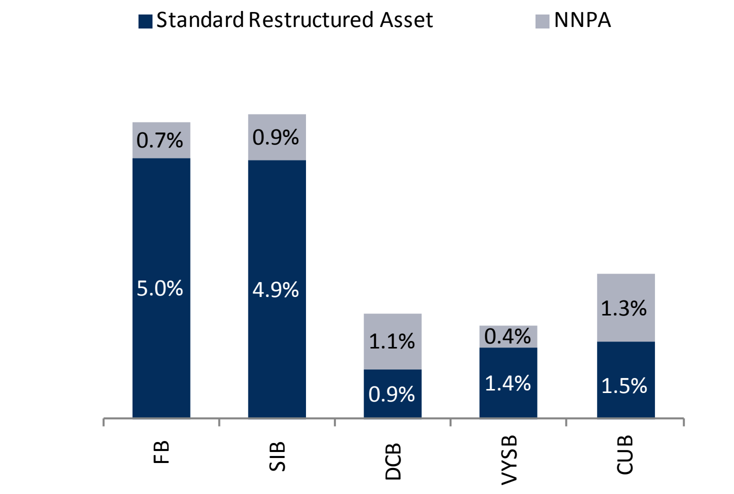


Source : Bank, HDFC sec Inst Research

Restructured assets remain low

- DCB has opted out of the CDR mechanism given its size (lower say in the CDR forum). As on Sept-14, DCB's restructured assets stood at Rs 830mn (0.9% of loans) with no major restructuring pipeline.
- Net impaired assets (Restructured assets + NNPA) at 2% remain one of the lowest amongst comparable regional peers.

Impaired assets : better placed than regional players

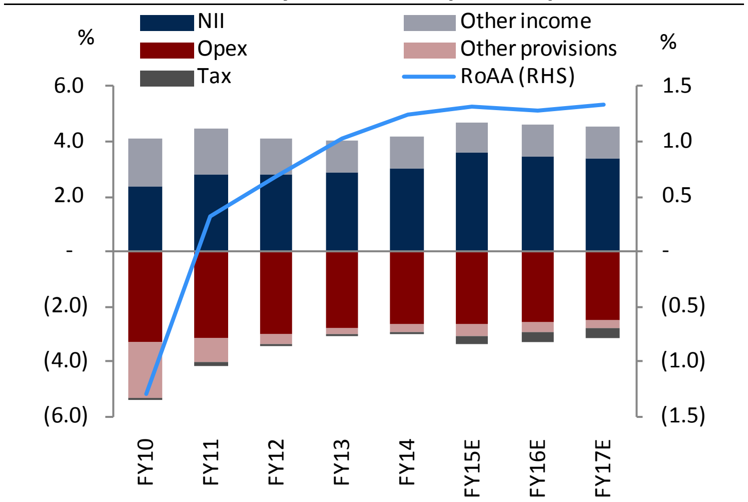


Source : Bank, HDFC sec Inst Research

Steady return ratios

- During FY10-14, DCB reported a sharp improvement in PPoP margins from 1.4% in FY10 to 2.55% in FY14, driven by steady growth in core earnings and controlled cost structure. Bank's RoA too improved from -1.3% in FY10 to +1.25% in FY14, driven by lower requirement for loan loss provisions and NIL tax provisions.
- **With continued traction in core earnings and further improvement in operating efficiencies, we expect bank's PPoP margins to improve by 40bps to 3% by FY17E. However, RoAs are expected to marginally improve to 1.3% with an increase in tax provision requirements. We have factored a tax rate of 18/22/22% for FY15/16/17E).**

RoAs to remain steady at 1.3%, despite tax provisions

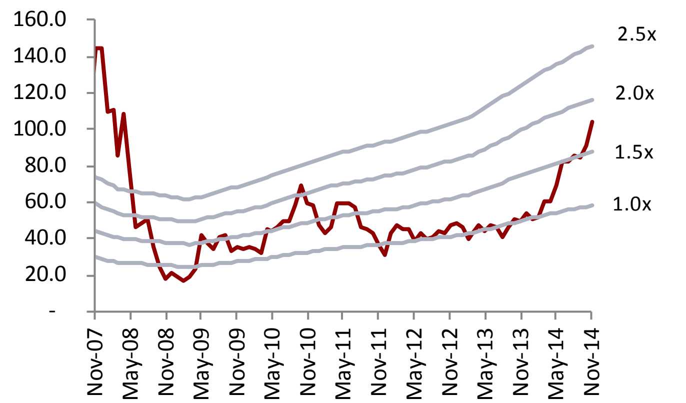


Source : Bank, HDFC sec Inst Research

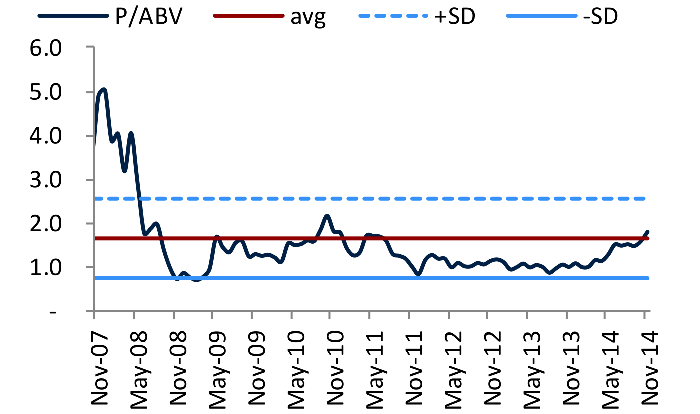
View and Valuations

- Driven by further improvement in C-I as well as expanding NIMs, we think PPoP margins will hit ~3% by FY17E (+40bps over FY14). Higher tax provisions will limit RoA expansion, though.
- We reckon a further re-rating is imminent, driven by (1) steady growth resulting in further oplev (2) stable and conservative management (3) adequate capital post the recent fund raise at Rs 82/sh. We believe DCB should trade at a premium to peers, given its superior growth and quality metrics. BUY with a TP of Rs 126 (1.8x FY17E ABV).

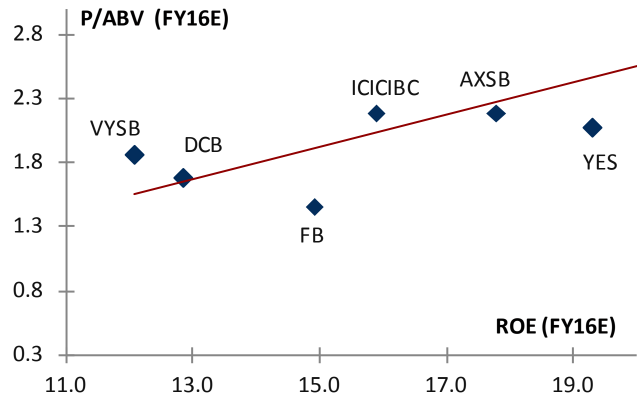
PABV : room for rerating



PABV : close to avg

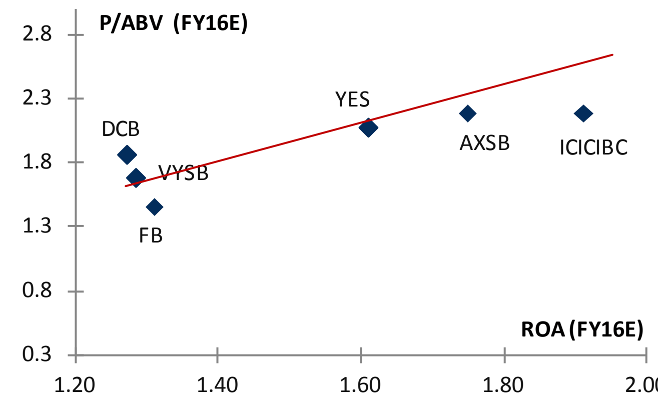


Peer comparision : PABV vs. ROAE (FY16E)



Source : Bank, HDFC sec Inst Research

Peer comparision : PABV vs. ROAA (FY16E)



Source : Bank, HDFC sec Inst Research

FIVE QUARTERS AT A GLANCE

(Rs mn)	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	YoY Growth	QoQ Growth
Net Interest Income	912.4	939.7	1,000.5	1,389.8	1,176.7	29.0%	-15.3%
Non Interest Income	272.7	328.4	334.5	344.9	369.6	35.5%	7.1%
Treasury Income	9.0	21.0	26.0	43.0	40.0	344.4%	-7.0%
Operating Income	1,185.1	1,268.1	1,335.0	1,734.7	1,546.3	30.5%	-10.9%
Operating Expenses	784.1	804.5	833.3	922.4	947.8	20.9%	2.7%
Pre provision Profits	401.0	463.6	501.6	812.3	598.5	49.3%	-26.3%
Other Provisions	70.3	99.9	110.4	229.3	137.5	95.7%	-40.1%
PBT	330.7	363.7	391.2	583.0	461.0	39.4%	-20.9%
Provision for Tax	-	-	0.4	136.5	50.1	NA	-63.3%
PAT	330.7	363.7	390.8	446.4	410.9	24.3%	-8.0%
OTHER DETAILS							
Balance Sheet items/ratios							
Deposits (Rs mn)	87,881	95,918	103,250	105,519	108,999	24.0%	3.3%
CASA Deposits (Rs mn)	23,653	23,791	25,813	26,782	27,751	17.3%	3.6%
Advances (Rs mn)	66,765	73,615	81,400	82,914	87,930	31.7%	6.0%
CD Ratio (%)	76.0	76.7	78.8	78.6	80.7	470 bps	209 bps
CAR (%)	13.8	12.9	13.7	13.6	13.0	-77 bps	-59 bps
Tier I (%)	12.9	12.0	12.9	12.8	12.2	-73 bps	-61 bps
Profitability							
Yield on Advances (%)	12.7	13.0	12.9	12.8	12.6	-13 bps	-24 bps
Cost of Funds (%)	7.6	7.9	7.9	7.8	7.7	17 bps	-6 bps
NIM (%)	3.7	3.6	3.6	3.7	3.7	4 bps	1 bps
Cost-Income (%)	66.2	63.4	62.4	53.2	61.3	-487 bps	812 bps
Cost-Income Ex Treasury (%)	66.7	64.5	63.7	54.5	62.9	-375 bps	840 bps
Tax Rate (%)	-	-	0.1	23.4	10.9	NA	-1255 bps
Asset quality							
Gross NPA (Rs mn)	2,351	2,079	1,385	1,492	1,688	-28.2%	13.2%
Net NPA (Rs mn)	572	570	740	805	943	65.0%	17.2%
Gross NPAs (%)	3.4	2.8	1.7	1.8	1.9	-153 bps	12 bps
Net NPAs (%)	0.9	0.8	0.9	1.0	1.1	21 bps	10 bps
Delinquency Ratio (%)	1.1	1.4	1.8	1.2	2.0	88 bps	79 bps
Coverage Ratio calc. (%)	75.7	72.6	46.5	46.1	44.1	-3154 bps	-193 bps
Coverage Ratio reported (%)	84.0	84.3	80.5	79.1	76.8	-717 bps	-228 bps

Source: HDFC sec Inst Research

Driven by 31% loan growth and stable YoY NIMs

Led by 29% fee growth

Added 12 branches during 1H

LLP at 33bps ann.; Std assets provisions at Rs 53mn

Retail deposits at ~83%; CASA (%) at 25.5%

Driven by mortgage portfolio (42% of loans)

Core C-I at 62.9%

Led by rise in corp & Agri NPLs

Two large corp AC of Rs 120mn

PEER VALUATIONS

Banks	CMP (Rs)	Mcap (Rs bn)	Reco	ABV (Rs)		P/E (x)		P/ABV (x)		ROAE (%)		ROAA (%)	
				FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
AXSB	468	1,103	BUY	183	214	14.9	12.9	2.55	2.19	17.9	17.8	1.77	1.75
DCBB	**103**	**29**	**BUY**	**53**	**61**	**15.5**	**13.3**	**1.95**	**1.69**	**13.7**	**12.8**	**1.32**	**1.28**
FB	142	121	BUY	86	98	12.3	9.9	1.65	1.46	13.5	14.9	1.24	1.31
ICICIBC #	1,694	1,962	BUY	560	639	14.2	12.1	2.57	2.19	15.7	15.9	1.89	1.91
IIB	704	370	BUY	188	225	20.5	15.7	3.74	3.14	19.3	21.2	1.86	1.95
VYSB	805	152	BUY	390	431	21.1	15.9	2.06	1.87	9.9	12.1	1.12	1.27
YES	676	280	NEU	279	325	14.0	11.5	2.42	2.08	21.3	19.3	1.64	1.61
ALBK	117	64	NEU	125	146	7.1	5.1	0.93	0.80	7.9	10.3	0.39	0.50
BOB	1,025	442	BUY	738	841	8.6	7.3	1.39	1.22	13.9	14.7	0.73	0.76
BOI	272	175	NEU	296	343	5.6	4.6	0.92	0.79	11.4	12.5	0.50	0.52
CBK	392	181	NEU	408	458	6.0	5.2	0.96	0.85	12.0	12.5	0.57	0.57
OBC	273	82	BUY	306	356	5.9	4.7	0.89	0.77	10.5	11.8	0.61	0.68
PNB	954	345	BUY	706	882	8.3	6.5	1.35	1.08	11.4	13.1	0.70	0.78
SBIN #	297	222	BUY	124	144	12.7	10.1	2.00	1.65	12.4	13.5	0.76	0.81
UNBK	212	135	NEU	192	226	6.8	5.3	1.10	0.94	11.2	12.9	0.54	0.62

Source : Company, HDFC sec Inst Research # adjusted for subsidiaries

INCOME STATEMENT

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Interest Earned	9,161	11,283	13,792	16,111	19,430
Interest Expended	6,317	7,599	8,705	10,272	12,505
Net Interest Income	**2,844**	**3,684**	**5,086**	**5,839**	**6,925**
Other Income	**1,170**	**1,387**	**1,580**	**1,948**	**2,299**
Fee Income (CEB)	893	1,011	1,209	1,510	1,858
Treasury Income	139	225	200	250	225
Total Income	**4,014**	**5,071**	**6,666**	**7,786**	**9,224**
Total Operating Exp	**2,753**	**3,191**	**3,783**	**4,403**	**5,119**
Employee Expense	1,379	1,571	1,840	2,154	2,508
PPOP	**1,261**	**1,880**	**2,884**	**3,384**	**4,105**
Provisions and Contingencies	240	366	617	593	611
Prov. for NPAs (incl. std prov.)	194	419	575	601	611
PBT	**1,021**	**1,514**	**2,267**	**2,791**	**3,494**
Provision for Tax	0	0	397	614	769
PAT	**1,021**	**1,514**	**1,870**	**2,177**	**2,725**

Source: Bank, HDFC sec Inst Research

BALANCE SHEET

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
SOURCES OF FUNDS					
Share Capital	2,531	2,533	2,837	2,837	2,837
Reserves	7,499	9,007	13,070	15,247	17,808
Shareholder's Funds	**10,031**	**11,540**	**15,907**	**18,084**	**20,645**
Savings	13,724	16,222	19,466	23,846	29,808
Current	8,992	9,591	10,550	11,816	13,234
Term Deposit	60,922	77,439	93,701	114,315	141,751
Total Deposits	**83,638**	**103,252**	**123,717**	**149,977**	**184,793**
Borrowings	15,256	8,602	8,375	9,537	10,868
Other Liabilities and Provisions	3,863	5,839	6,442	7,180	8,044
Total Liabilities	**112,788**	**129,231**	**154,441**	**184,779**	**224,350**
APPLICATION OF FUNDS					
Cash and Bank Balance	8,833	6,896	9,543	9,027	11,016
Investments	33,587	36,342	39,357	44,903	53,220
G-Secs	24,332	28,072	31,471	37,401	46,084
Advances	65,861	81,402	100,762	125,839	154,857
Fixed Assets	2,394	2,386	2,440	2,501	2,564
Other Assets	2,114	2,205	2,339	2,509	2,693
Total Assets	**112,788**	**129,231**	**154,441**	**184,779**	**224,350**

Source: Bank, HDFC sec Inst Research

KEY RATIOS

	FY13	FY14	FY15E	FY16E	FY17E
Valuation Ratios					
EPS	4.1	6.0	6.7	7.8	9.7
Earnings Growth (%)	85.3	48.3	23.6	16.4	25.2
BVPS (ex reval.)	40.0	46.0	56.6	64.3	73.4
Adj. BVPS (ex reval. and 100% cover)	38.0	43.0	52.9	61.0	70.1
ROAA (%)	1.02	1.25	1.32	1.28	1.33
ROAE (%)	11.0	14.1	13.7	12.8	14.1
ROAE (%) (ex revaluations)	11.0	14.1	13.7	12.8	14.1
P/E (x)	25.2	17.0	15.5	13.3	10.6
P/ABV (x)	2.71	2.39	1.95	1.69	1.47
P/PPOP (x)	20.7	13.9	10.1	8.6	7.1
Dividend Yield (%)	-	-	-	-	0.5
Profitability					
Yield on Advances (%)	12.0	11.8	11.7	11.5	11.3
Yield on Investment (%)	6.7	7.0	7.1	7.1	7.1
Cost of Deposits (%)	7.3	7.1	7.0	6.9	6.9
Core Spread (%)	4.7	4.7	4.7	4.6	4.4
NIM (%)	3.0	3.2	3.7	3.5	3.5
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	2.8	2.6	2.7	2.6	2.5
Cost-Income Ratio (Excl Treasury)	71.0	65.8	58.5	58.4	56.9
Balance Sheet Structure Ratios					
Loan Growth (%)	24.6	23.6	23.8	24.9	23.1
Deposit Growth (%)	32.0	23.5	19.8	21.2	23.2
C/D Ratio (%)	78.7	78.8	81.4	83.9	83.8
Equity/Assets (%)	8.9	8.9	10.3	9.8	9.2
Equity/Loans (%)	15.2	14.2	15.8	14.4	13.3
CASA (%)	27.2	25.0	24.3	23.8	23.3
Total Capital Adequacy Ratio (CAR)	13.6	13.7	15.5	14.3	13.4
Tier I CAR	12.6	12.9	14.6	13.6	12.8

	FY13	FY14	FY15E	FY16E	FY17E
Asset Quality					
Gross NPLs (Rs mn)	2,150	1,385	1,771	1,842	1,974
Net NPLs (Rs mn)	492	740	1,013	927	946
Gross NPLs (%)	3.2	1.69	1.73	1.44	1.26
Net NPLs (%)	0.8	0.91	1.01	0.74	0.61
Coverage Ratio (%)	77.1	46.5	42.8	49.7	52.1
Provision/Avg. Loans (%)	0.29	0.47	0.47	0.37	0.27
RoAA Tree					
Net Interest Income	2.85%	3.04%	3.59%	3.44%	3.39%
Non Interest Income	1.17%	1.15%	1.11%	1.15%	1.12%
Treasury Income	0.14%	0.19%	0.14%	0.15%	0.11%
Operating Cost	2.76%	2.64%	2.67%	2.60%	2.50%
Provisions	0.24%	0.30%	0.43%	0.35%	0.30%
Provisions for NPAs	*0.18%*	*0.29%*	*0.30%*	*0.24%*	*0.19%*
Tax	0.00%	0.00%	0.28%	0.36%	0.38%
ROAA	1.02%	1.25%	1.32%	1.28%	1.33%
Leverage (x)	10.7	11.2	10.3	10.0	10.6
ROAE	10.95%	14.03%	13.63%	12.81%	14.07%

Source: Bank, HDFC sec Inst Research

Rating Definitions

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

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