

# Buy Federal Bank

Industry: BFSI

**LKP**  
Since 1948

## The new "old private sector bank"

Federal Bank has outgrown from the tag of old private sector bank by doing market share wins in businesses, acquiring customers rapidly, improvising processes & engagement levels with the clients, filling the service gaps, mending digital initiatives in line with private sector banks, building strong management bandwidth – to become at par with the other large private sector banks. However, this larger picture has been ignored in the chaos of NPA mess. Asset quality problems should also start to recede incrementally despite Kerala floods. In our view, once the dust settles on asset quality woes, the bank would get multiple re-rating. **BUY with TP of ₹ 121, upside of 30%.**

### Material moderation in bad loan formation

In our view, better days are ahead for the bank in terms of asset quality going forward. Large part of restructured assets has already been recognized as NPA by the bank (₹5.8 bn, down 77% in 4 yrs). Of this ₹5.8 bn of restructured stock, ₹2.8 bn is exposure to Air India and balance ₹3 bn are small value accounts ranging from ₹10-400 mn spread across various sectors. Mgmt expects FY19 slippages to be at ~₹14.5 bn, of this, ₹9.6 bn have already been reported in H1FY19, implying much lower run rate for second half. Also, credit cost is estimated to be at 0.65-0.7% vs. our estimate of 0.8% for FY19. Corporate slippages on declining trajectory give us confidence that bank would be able to meet its slippage guidance. Total stressed assets (including O/S restructured assets and net SRs) have come down considerably from peak of 5.6% in Q2FY16 to 1% in Q2FY19.

### Higher loan growth + other income

Management expects strong loan growth of 22-25% levels in coming years driven by both corporate and retail loans. Incrementally, the bank is focusing more on the high yielding retail loans like personal loans. Going forward, we estimate core fee income to grow at strong pace of 22% CAGR over FY18-21E. Various initiatives taken by the bank viz. foraying into investment banking, advisory & wealth mgmt. services, tie-ups with broking firms for Portfolio Investment Scheme (PIS), cross sell opportunities of third party products life & general insurance, online mutual selling etc. is likely boost other income growth. We have already seen good traction in core fee income which has grown by 24% in Q2FY19. Going forward, we estimate core fee income to grow by 22% CAGR over FY18-21E.

### Gaining market share in good quality assets

Amidst NPA chaos, markets have missed the fact that the bank has gained its market share in deposits and advances in the last 4 years akin to large private sector banks. Unlike other old south based private banks, Federal bank's share in advances has surged from 0.75% in Mar'15 to 1.13% till date and in deposits from 0.8% to 1% for the same period. Importantly, market share improvement has come in good rated quality assets viz. share of A & above rated assets in total wholesale assets which was 23% in Mar'14 has surged to 71% in Q2FY19.

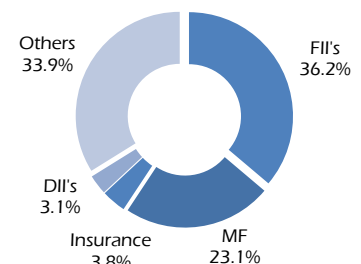
### Current valuations offer decent upside

In our view, once the dust settles on the asset quality woes, the bank would get multiple re-rating on the back of balance-sheet strengthening, gaining market share, strong management team in place and higher asset growth. The current valuations of the bank offer decent upside. Currently, the bank is trading at 1.6x FY19e and 1.4x FY20e ABV. We give a **BUY** rating on the stock with the TP of ₹121 (discounting its FY20E ABV by 1.8x times).

#### Stock Data

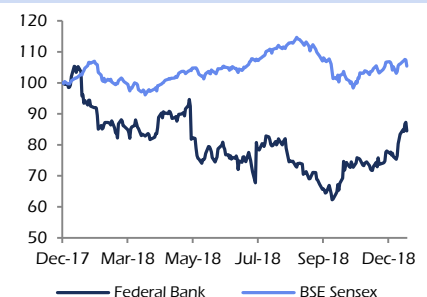
Rating	BUY
Current Market Price (₹)	92
12 M Price Target (₹)	121
Potential upside (%)	30
FV (₹)	2
Market Cap Full (₹ bn)	183
52-Week Range (₹)	116 / 67
BSE / NSE Code	500469 / FEDERALBNK
Reuters / Bloomberg	FED.BO / FB IN

#### Shareholding Pattern (Q2FY19)



YE Mar, Rs.mn	FY18	FY19e	FY20e	FY21e
PAT (₹ mn)	8,788	11,720	15,075	19,849
Yoy (%)	5.8	33.4	28.6	31.7
BV (₹)	61.9	66.4	73.9	83.8
ABV (₹)	54.0	59.6	67.4	77.3
P/ABV (x)	33.2	1.6	1.4	1.2
ROE (%)	8.3	9.3	10.9	12.8
ROA (%)	0.7	0.8	0.8	0.9
Gross NPAs (%)	3.0	2.7	2.5	2.5
PCR (%)	43.5	55.7	63.9	69.6

#### Relative Price Performance



**Material moderation in bad loan formation**

Better days are ahead for the bank in terms of asset quality going forward. One, large part of restructured assets has already been recognized as NPA by the bank as these assets are currently at an all-time low levels of ₹5.8 bn (Q2FY19), down 77% in the last 4 yrs. Of this ₹5.8 bn of restructured stock, ₹2.8 bn is exposure to Air India and balance ₹3 bn are small value accounts ranging from ₹10-400 mn spread across various sectors. Two, bank has guided for relatively lower slippages for FY19 at ₹14.5 bn, much lower than ₹22 bn reported in FY18. Of this total slippage guidance of ₹14.5 bn, ₹9.6 bn have already been reported in H1FY19, implying much lower run rate for second half. Despite kerala floods, slippage guidance is not very worse. Mgmt anticipates credit cost to be at 0.65-0.7% vs. our estimate of 0.8% for FY19. Interestingly, historic past run-rate of corporate slippages which has been mainstay of overall slippages has been on declining trend. This gives us further confidence that bank would be able to meet its slippage guidance. Additionally, the bank has no exposure to IL&FS parent company but to its projects amounting to ₹2 bn, which are performing assets and no default has been seen as of now. Total stressed assets (including O/S restructured assets and net SRs) have come down considerably from peak of 5.6% in Q2FY16 to 1% in Q2FY19.

**Quarterly trends of assets quality – incremental slippages are trending down**

(₹.mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Opening Balance	16,678	17,473	18,197	19,516	17,271	18,679	19,490	21,612	27,960	28,690
Add: Slippages	2,800	2,660	2,740	2,440	4,250	2,840	4,120	8,917	4,820	4,820
Less: Reductions	2,005	1,936	1,422	4,685	2,841	2,030	1,998	2,573	4,090	1,660
Cl. Gross NPAs (₹)	17,473	18,197	19,516	17,271	18,679	19,490	21,612	27,956	28,690	31,850
Net NPAs (₹)	9,945	10,397	11,024	9,412	10,613	10,664	11,567	15,520	16,202	17,963
Provisions (₹)	7,528	7,800	8,492	7,859	8,067	8,826	10,045	12,437	12,488	13,887
Gross NPAs (%)	2.9	2.8	2.8	2.3	2.4	2.4	2.5	3.0	3.0	3.1
Net NPAs (%)	1.7	1.6	1.6	1.3	1.4	1.3	1.4	1.7	1.7	1.8
PCR (%)	43.1	42.9	43.5	45.5	43.2	45.3	46.5	44.5	43.5	43.6

Source: Company, LKP Research

**Break-up of slippages – corporate slippages which have been mainstay of total slippages are coming off considerably**

(₹.mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Retail	670	630	860	550	970	1,060	1,500	700	1,090	1,200
Agri	340	260	140	300	450	510	420	560	540	650
SME	1,340	1,350	1,190	1,220	1,140	1,070	1,220	1,420	1,630	1,690
Corporate	450	420	550	370	1,690	200	980	6,040	2,070	1,230
<b>Total</b>	<b>2,800</b>	<b>2,660</b>	<b>2,740</b>	<b>2,440</b>	<b>4,250</b>	<b>2,840</b>	<b>4,120</b>	<b>8,720</b>	<b>5,330</b>	<b>4,770</b>
<b>% Share</b>										
Retail	23.9	23.7	31.4	22.5	22.8	37.3	36.4	8.0	20.5	25.2
Agri	12.1	9.8	5.1	12.3	10.6	18.0	10.2	6.4	10.1	13.6
SME	47.9	50.8	43.4	50	26.8	37.7	29.6	16.3	30.6	35.4

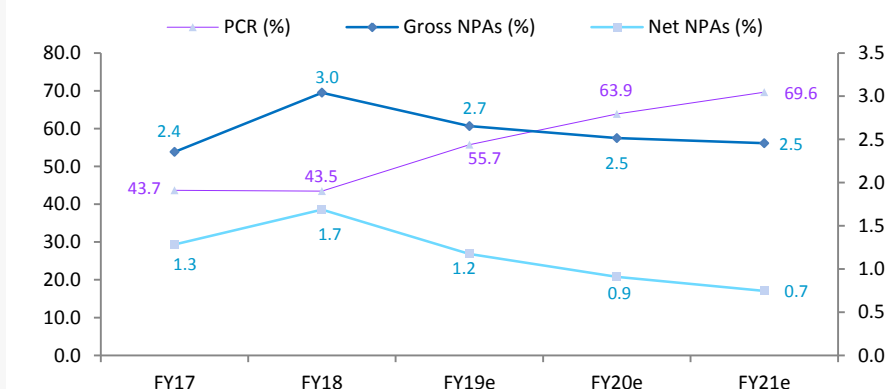
Source: Company, LKP Research

**Restructured assets – total restructured stock has down to 2.8% from 5% in last 2.5 yrs**

(₹.mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Std restructured assets O/S	13,430	14,930	14,530	12,820	13,260	13,430	14,250	7,930	5,810	5,770
Net SRs	6,150	6,060	5,840	7,470	8,040	7,880	7,750	5,450	4,790	4,110
Net NPAs	9,945	10,397	11,024	9,412	10,613	10,664	11,567	15,520	16,202	17,963
Total stressed assets	29,525	31,387	31,394	29,702	31,913	31,974	33,567	28,900	26,802	27,843
Total stressed assets / Advances	5.0	4.9	4.5	4.1	4.2	4.0	4.0	3.1	2.8	2.8
Std rest. Assets + SRs / Advances	3.3	3.2	2.9	2.8	2.8	2.6	2.6	1.5	1.1	1.0

Source: Company, LKP Research

### Asset quality woes are receding

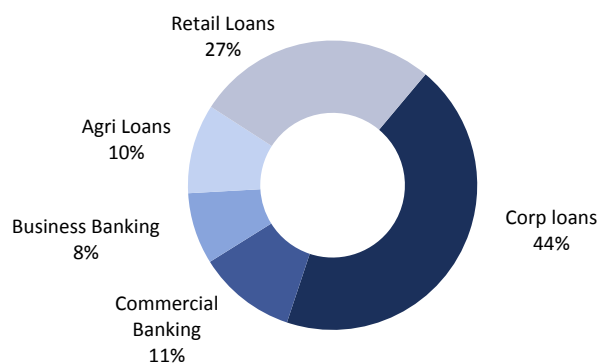


Source: Company, LKP Research

### Loans to embark high growth trajectory

Management has guided that loan growth would continue to remain strong at 22-25% levels in the near future in the coming years driven by both corporate and retail loans. Corporate loans have 44% share in total loans (Q2FY19), SME loans (including commercial and business banking) form 19%, agri 10% and retail 27%. Bank defines corporate loans as loans with ticket size of >₹250 mn, commercial banking 50-250 mn, and business banking <50 mn. As per management, pricing power has returned in corporate loans. Market share wins alongwith bank's aggressive push in retail loans shall aid the strong growth in the loan portfolio. Incrementally, the bank is focusing more on the high yielding retail loans like personal loans (mgmt has also hired senior people in the team to build its unsecured retail business and vehicle finance portfolios).

### Breakup of the loan book of the bank (Q2FY19)



Source: Company

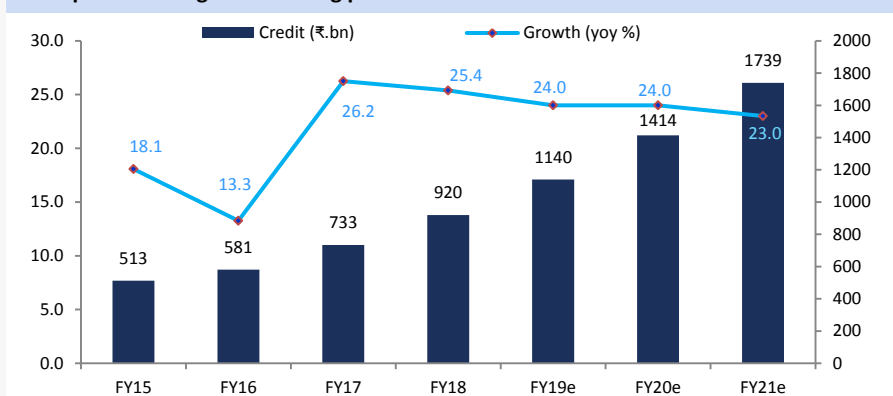
## Retail loan growth accelerating

## Break-up of retail loans

(₹.bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Housing	80.4	83.5	85.7	91.0	94.0	100.8	107.6	116.5	122.1	135.8
Gold	22.6	22.6	20.9	20.9	20.2	19.2	18.9	19.7	18.3	17.3
Mortgages	32.9	35.0	36.3	39.0	40.3	42.2	44.3	47.7	48.6	51.1
Others	37.9	58.5	70.3	67.0	67.7	70.4	72.2	72.9	72.3	73.9
<b>Total</b>	<b>173.8</b>	<b>199.6</b>	<b>213.1</b>	<b>217.9</b>	<b>222.3</b>	<b>232.6</b>	<b>242.9</b>	<b>256.8</b>	<b>261.3</b>	<b>278.1</b>
<b>Growth (%)</b>										
Housing					16.9	20.7	25.6	27.9	29.8	34.7
Gold					-10.5	-15.0	-9.5	-6.1	-9.4	-9.7
Mortgages					22.5	20.4	22.0	22.5	20.7	21.1
Others					78.7	20.3	2.7	8.8	6.7	5.0
<b>Total</b>					<b>27.9</b>	<b>16.5</b>	<b>14.0</b>	<b>17.8</b>	<b>17.6</b>	<b>19.6</b>
<b>Share (%)</b>										
Housing	46.3	41.8	40.2	41.8	42.3	43.3	44.3	45.4	46.7	48.8
Gold	13.0	11.3	9.8	9.6	9.1	8.3	7.8	7.7	7.0	6.2
Mortgages	18.9	17.5	17.0	17.9	18.1	18.1	18.2	18.6	18.6	18.4
Others	21.8	29.3	33.0	30.7	30.5	30.3	29.7	28.4	27.7	26.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, LKP Research

## We expect loan to grow at strong pace



Source: Company, LKP Research

## Revival in other income very much likely

Over the years, one of core concerns for old private sector banks is weak other income profile where Federal Bank was no different as it has faced lackluster and uneven growth. However, lot has been done in the past years to boost core fee income viz. a) Forayed into investment banking providing financial solutions into debt & equity, advisory and wealth management services b) Entered into Portfolio Investment Scheme (PIS) tie up with three prominent broking firms for NRIs to invest in Indian equity markets. The bank can get sizeable benefits of the same as it wide base of NRI customers c) Retail fee income should also get boost with the introduction of new retail loan product offerings like personal loans, credit cards etc. With increased large customer base of ~10 mn, cross sell opportunities of third party products would increase immensely like offering life & general insurance, online mutual selling, gold bonds, wealth mgmt. & advisory etc to clients. Enhanced services of digital payment offerings should also add to the fee income lines. We have already seen good traction in core fee income which has grown by 24% in Q2FY19. Going forward, we estimate core fee income to grow by 22% CAGR over FY18-21E.

### Gaining market share in good quality assets

Amidst NPA chaos, markets have missed the fact that the bank has gained its market share in deposits and advances in the last 4 years akin to large private sector banks. Increased business relationships would not only boost advances growth but also other income too. Unlike other old south based private banks, Federal bank's share in advances has surged from 0.75% in Mar'15 to 1.13% till date and in deposits from 0.8% to 1% for the same period. In our view, this is one of the huge positives that in tough times, the bank has strengthened its balance sheet.

Importantly, market share improvement has come in good rated quality assets viz. share of A & above rated assets in total wholesale assets which was 23% in Mar'14 has surged to 71% in Q2FY19 while the share of <BBB & unrated assets share has come down from 60% to 17% for the same period. This implies incremental higher growth has come in good rated quality assets.

### Risk rating of the wholesale assets

(%)	Q4FY14	Q2FY19
A & Above	23.0	71.0
BBB	17.0	12.0
<BBB	20.0	17.0
Unrated	40.0	-

Source: Company, LKP Research

### While market share in the business of other bank's has remained stagnant, Federal Bank has improved its share considerably

% Share Change	South Indian Bank	Karnataka Bank	Karur Vysya Bank	Federal Bank	CUB	Lakshmi Vilas Bank
<b>Deposits</b>						
in FY15 (bn)	0.58	0.52	0.5	0.79	0.27	0.25
as on Q2FY19 (bn)	0.63	0.54	0.49	1	0.29	0.26
<b>Advances</b>						
in FY15 (bn)	0.55	0.46	0.46	0.75	0.26	0.24
as on Q2FY19 (bn)	0.64	0.56	0.52	1.13	0.33	0.25

### Digital investments bringing at par with other large private banks

Over the last few years, the bank has introduced host of new digital initiatives to bring its technology at par with other larger peers viz. a) Blockchain technology used for cross border remittances b) Doing retail customer segmentation using data analytics c) Online purchase converted into EMLs d) API banking platform e) Radio-frequency identification technology f) Online mutual fund platform g) Lotza UPI app – country's first UPI offering h) Instant account opening mobile app FedBook Selfie i) e-PoS innovative payment system which does not requires physical PoS (Point of Sale) terminal j) BYOM –pioneering step in retail lending space where personal loans can be obtained within fraction of seconds. All this will not only improvise customer engagement and service levels but also help in gaining traction in business momentum.

These digital initiatives are in tandem with the large private sector banks and which are not even done by the other old private sector banks. In our view, this shall give the bank structural benefits in the long run.

## Technology & Digital Initiatives

FY2018	FY2017	FY2016
Blockchain Technology used for cross border remittance	Lotza UPI app – country's first UPI offering	FedBook Selfie - instant account opening mobile app
Retail customer segmentation - Data Analytics	e-PoS innovative payment system which does not requires physical PoS (Point of Sale) terminal	Scan & Pay - mobile based payment app facilitating payments at merchant outlets and websites by scanning QR code
Online purchase converted into EMIs	BYOM –pioneering step in retail lending space where personal loans can be obtained within fraction of seconds	Missed Call Banking
API Banking Platform	Federal Bank associated with a Fintech startup company 4TiGO for developing a UBER type technology platform for trucks.	Mobile Banking
Digilocker account		
Radio-Frequency Identification Technology		
Online Mutual Fund Platform		
"PayLite - comprehensive web based solution for processing bulk transactions of corporate clients."		

Source: Company

## Other highlights

- 1) Mgmt. expects cost to income ratio to be sustained at 48% levels for balance part of the year similar to Q2FY19 levels. Branch expansion of the bank will not be very aggressive – it is likely to add 5-6 branches each year in the coming few years. It is following the strategy of branch light and distribution heavy model. Branch strategy looks reasonable given largely the loans are generated by RMs and less by branches and in the past, higher volumes of business have been achieved without much expansion. Thus, higher asset growth alongwith controlled opex is likely to result in lower cost/income ratio to lower to 47% in FY20e vs. 51.7% FY18
- 2) The bank has 10-12% of the total assets exposure to NBFCs. These include exposure to top rated companies with top 4 loan amount being at ₹30 bn
- 3) Mgmt. expects total slippages of ₹14.5 bn and credit cost of 0.65-0.7% for FY19E
- 4) Sourcing and sanctioning of the loans have undergone a sea change from earlier practices. Earlier, branch manager had the authority to sanction the loans which was akin to PSU banks' lending practices. Now, credit hubs have been formed which are responsible for sanctioning loans. Branch manager obligations have been reduced to only sourcing of the loans. Additionally, the loans are largely generated via Relationship Managers (RMs)
- 5) Margins are anticipated to be at 3.2% levels as per mgmt. 94% of the deposits consists of retail liabilities while bulk deposits are hardly 6%. This should give the benefit of slow repricing to the bank in the rising interest rate scenario. In the last 6 mnths, the bank has revised its MCLR by 10-30 bps across maturities and 80% of its loans are not based rate linked – advantage of the same is likely to flow through in the coming quarters. We also estimate marginal improving margin trajectory for the bank for FY19e.
- 6) Bank expects exit ROA of 1.1% by FY20 end and 1.2% by FY21
- 7) Bank's has sold 17-18% stake subsidiary Fedfina Financial Services two months back to True North Enterprise Pvt. Ltd. For the year FY18, Fedfina had loan portfolio of ₹14 bn and PAT of 308mn.

### Current valuations offer decent upside

In our view, once the dust settles on asset quality woes, the bank would get multiple re-rating on the back of balance-sheet strengthening, gaining market share, strong management team in place and higher asset growth. The current valuations of the bank offer decent upside. Currently, the bank is trading at 1.6x FY19e and 1.4x FY20e ABV. While on the return ratios, we expect ROA to surge from 0.7% in FY18 to 0.8% in FY20e and ROE from 8% to 11% for the same period. We give a BUY rating on the stock with the TP of ₹121 giving upside potential of 30% from current levels (discounting its FY20E ABV by 1.8x times).

#### Q2FY19 Financial Results

(in Mn)	Q2FY19	Q2FY18	yoy (%)	Q1FY19	qoq (%)	H1FY19	H1FY18	yoy (%)
<b>Interest earned</b>	<b>27,649</b>	<b>23,796</b>	<b>16.2</b>	<b>26,673.8</b>	<b>3.7</b>	<b>54,323.0</b>	<b>47,036.9</b>	<b>15.5</b>
-Interest/discount on advances/bills	22,105	18,590	18.9	20,794	6.3	42,900	36,468	17.6
-Income on investments	4,883	4,500	8.5	5,072	-3.7	9,955	9,183	8.4
-Interest on bal. with RBI	209	259	-19.2	252	-17.2	461	495	-6.9
-Others	452	447	1.0	556	-18.7	1,007	891	13.0
Interest expenses	17,425	14,807	17.7	16,873	3.3	34,298	30,041	14.2
<b>Net Interest Income (NII)</b>	<b>10,225</b>	<b>8,989</b>	<b>13.7</b>	<b>9,801</b>	<b>4.3</b>	<b>20,025</b>	<b>16,996</b>	<b>17.8</b>
Other Income	3,229	2,872	12.4	2,709	19.2	5,938	6,163	-3.7
<b>Total income</b>	<b>13,454</b>	<b>11,861</b>	<b>13.4</b>	<b>12,509</b>	<b>7.5</b>	<b>25,963</b>	<b>23,159</b>	<b>12.1</b>
<b>Operating expenses</b>	<b>6,478</b>	<b>6,029</b>	<b>7.4</b>	<b>6,480</b>	<b>0.0</b>	<b>12,958</b>	<b>11,748</b>	<b>10.3</b>
-Employee cost	3,089	3,127	-1.2	3,450	-10.5	6,540	6,112	7.0
-Other operating expenses	3,388	2,902	16.8	3,030	11.8	6,418	5,637	13.9
<b>Operating profit</b>	<b>6,976</b>	<b>5,832</b>	<b>19.6</b>	<b>6,029</b>	<b>15.7</b>	<b>13,005</b>	<b>11,411</b>	<b>14.0</b>
Provision for contingencies	2,888	1,768	63.4	1,992	45.0	4,880	4,132	18.1
<b>PBT</b>	<b>4,088</b>	<b>4,064</b>	<b>0.6</b>	<b>4,038</b>	<b>1.2</b>	<b>8,126</b>	<b>7,279</b>	<b>11.6</b>
Provision for taxes	1,427	1,427	0.0	1,411	1.2	2,838	2,540	11.7
<b>Net profit</b>	<b>2,660</b>	<b>2,637</b>	<b>0.9</b>	<b>2,627</b>	<b>1.3</b>	<b>5,288</b>	<b>4,739</b>	<b>11.6</b>
Equity	3,961	3,909	1.3	3,955	0.2	3,961	3,909	1.3
EPS	6.72	6.75	-0.4	6.64	1.1	13.35	12.12	10.1
<b>Ratios (%)</b>								
Int. exp/Int earned (%)	63.0	62.2	-	63.3	-	63.1	63.9	-
Cost/Income ratio (%)	48.1	50.8	-	51.8	-	49.9	50.7	-
Gross NPAs (₹)	31,845	19,490	63.4	28,688	11.0	31,845	19,490	63.4
Net NPAs (₹)	17,963	10,664	68.4	16,202	10.9	17,963	10,664	68.4
Gross NPAs (%)	3.11	2.39	-	3.00	-	3.1	2.4	-
Net NPAs (%)	1.78	1.3	-	1.7	-	1.8	1.3	-
ROA (%)	0.2	0.2	-	0.2	-	1.5	1.5	-
CAR (%)	13.3	14.6	-	14.5	-	13.3	14.6	-
Provision coverage (%)	43.6	45.3		43.5		43.6	45.3	
<b>Balance Sheet (₹.mn)</b>								
Deposits	11,81,824	9,72,108	21.6	1,21,030	876.5	11,81,824	9,72,108	21.6
Advances	10,09,409	8,06,459	25.2	9,42,970	7.0	10,09,409	8,06,459	25.2

Source: Company, LKP Research

## Profit &amp; Loss Statement

(₹. Mn)	FY17	FY18	FY19e	FY20e	FY21e
<b>INTEREST EARNED</b>	<b>86,774</b>	<b>97,529</b>	<b>1,16,573</b>	<b>1,45,499</b>	<b>1,81,934</b>
Interest/Discount on advances/Bills	65,457	75,388	91,805	1,16,217	1,46,618
Income from Investment	18,014	19,174	21,531	26,057	31,641
Interest on Balances with RBI & Others	989	958	1,237	1,225	1,575
Others	2,314	2,008	2,000	2,000	2,100
<b>INTEREST EXPENDED</b>	<b>56,247</b>	<b>61,701</b>	<b>72,559</b>	<b>90,787</b>	<b>1,13,608</b>
<b>Net Interest Income (NII)</b>	<b>30,526</b>	<b>35,828</b>	<b>44,014</b>	<b>54,712</b>	<b>68,326</b>
OTHER INCOME	10,818	11,591	13,180	15,516	18,195
<b>TOTAL INCOME</b>	<b>41,344</b>	<b>47,419</b>	<b>57,194</b>	<b>70,228</b>	<b>86,521</b>
Employee Expenses	11,638	12,425	14,195	15,689	17,340
Other operating expenses	10,458	12,084	14,629	17,394	20,683
<b>Total Opex</b>	<b>22,095</b>	<b>24,509</b>	<b>28,824</b>	<b>33,083</b>	<b>38,023</b>
<b>OPERATING PROFIT</b>	<b>19,249</b>	<b>22,910</b>	<b>28,370</b>	<b>37,145</b>	<b>48,498</b>
PROVISIONS	6,184	9,472	10,450	14,094	18,148
Provision for Non Performing Assets	4,051	7,527	9,122	12,725	16,522
<b>Profit Before Tax (PBT)</b>	<b>13,065</b>	<b>13,439</b>	<b>17,920</b>	<b>23,051</b>	<b>30,350</b>
Tax Provisions	4,757	4,650	6,200	7,976	10,501
<b>PAT</b>	<b>8,308</b>	<b>8,788</b>	<b>11,720</b>	<b>15,075</b>	<b>19,849</b>
(% change)	74.7	5.8	33.4	28.6	31.7
EPS	4.8	4.5	5.9	7.6	10.1
Total Paid-Up Capital	3,448	3,944	3,944	3,944	3,944

Source: Company, LKP Research

## Balance Sheet

(₹.mn)	FY17	FY18	FY19e	FY20e	FY21e
<b>Application of funds</b>					
Cash & bank balances	45,766	51,328	62,176	74,613	89,626
Bal. with banks and money at call & short notice	28,756	40,707	32,311	36,696	46,349
Advances	7,33,363	9,19,575	11,40,273	14,13,938	17,39,144
Investments	2,81,961	3,07,811	3,54,681	4,23,150	5,07,456
Fixed Assets	4,895	4,574	6,048	6,381	6,732
Other Assets	55,029	59,147	75,766	91,071	1,10,196
<b>TOTAL ASSETS</b>	<b>11,49,770</b>	<b>13,83,140</b>	<b>16,71,255</b>	<b>20,45,849</b>	<b>24,99,503</b>
<b>Sources of funds</b>					
Total Paid-Up Capital	3,448	3,944	3,944	3,944	3,944
Reserves & Surplus	85,976	1,18,158	1,26,965	1,41,803	1,61,414
Deposits	9,76,646	11,19,925	13,49,435	16,53,729	20,22,260
Borrowings	58,973	1,15,335	1,58,560	2,07,520	2,64,873
Other Liabilities & Provisions	24,727	25,777	32,351	38,853	47,012
<b>TOTAL LIABILITIES</b>	<b>11,49,770</b>	<b>13,83,140</b>	<b>16,71,255</b>	<b>20,45,849</b>	<b>24,99,503</b>

Source: Company, LKP Research



## Ratios

(A) Efficiency Ratios (%)	FY17	FY18	FY19e	FY20e	FY21e
Int. exp/Int. earned	64.8	63.3	62.2	62.4	62.4
NII / Total Income	73.8	75.6	77.0	77.9	79.0
Other income / Total Income	26.2	24.4	23.0	22.1	21.0
Fee income / Other income	53.2	54.9	60.4	62.1	64.1
Fee income / Total Income	13.9	13.4	13.9	13.7	13.5
Cost / Income	53.4	51.7	50.4	47.1	43.9
Cost/Income (excluding trading gains)	57.8	54.4	52.2	48.5	45.0
C-D ratio	75.1	82.1	84.5	85.5	86.0
I-D ratio	28.9	27.5	26.3	25.6	25.1
Loan / Assets ratio	63.8	66.5	68.2	69.1	69.6
Deposits / Assets ratio	84.9	81.0	80.7	80.8	80.9
CASA / Total Deposits	32.8	33.7	33.7	33.5	33.1
B) Spreads (%)	FY17	FY18	FY19e	FY20e	FY21e
Yield on Assets	9.0	8.1	8.1	8.3	8.4
Yield on Advances	10.0	9.1	8.9	9.1	9.3
Yield on Investments	7.1	6.5	6.5	6.7	6.8
Cost of Funds	6.1	5.4	5.3	5.4	5.5
Cost of Deposits	6.1	5.5	5.3	5.4	5.5
Cost of Earning Assets	5.8	5.1	5.0	5.2	5.3
Net Interest Spread	2.9	2.7	2.8	2.9	3.0
Net Interest Margin	3.15	2.99	3.04	3.11	3.17
C) Solvency	FY17	FY18	FY19e	FY20e	FY21e
Gross NPAs (₹)	17,271	27,956	30,266	35,554	42,703
Net NPAs (₹)	9,412	15,520	13,397	12,843	12,977
Provisions (₹ mn)	7,545	12,151	16,869	22,710	29,726
Gross NPAs / Gross Advances (%)	2.4	3.0	2.7	2.5	2.5
Net NPAs / Net Advances (%)	1.3	1.7	1.2	0.9	0.7
Provision Coverage Ratio (%)	43.7	43.5	55.7	63.9	69.6
Delinquency rate(%)	1.9	3.0	1.8	1.8	1.8
Credit Cost (%)	0.55	0.82	0.80	0.90	0.95
Credit Cost (%) (NPA Prov + SA / Gross Advances)	0.66	0.86	0.92	1.00	1.04
D) Measures of Investment	FY17	FY18	FY19e	FY20e	FY21e
EPS (₹)	4.8	4.5	5.9	7.6	10.1
BV (₹) (adjusted for revaluation reserve)	51.9	61.9	66.4	73.9	83.8
Adjusted BV (₹) (adjusted for revaluation reserve)	46.4	54.0	59.6	67.4	77.3
DPS (₹)	0.9	1.0	1.1	1.2	1.3
Avg. ROE (%)	9.8	8.3	9.3	10.9	12.8
Avg. ROA (%)	0.80	0.69	0.77	0.81	0.9
Pre-tax ROA (%)	1.3	1.1	1.2	1.2	1.3
Pre-provisioning operating ROA (%)	1.9	1.8	1.9	2.0	2.1
Pre-provisioning operating ROE (%)	22.6	21.7	22.4	26.9	31.2
P/E (x)	292.6	403.0	15.6	12.2	9.2
P/BV (x)	27.2	29.0	1.4	1.3	1.1
P/ABV (x)	30.4	33.2	1.6	1.4	1.2
Dividend yield (x)	0.1	0.1	1.2	1.3	1.4
Dividend Payout ratio (%)	18.7	22.4	18.5	15.7	12.9
Effective tax rate (%)	36.4	34.6	34.6	34.6	34.6

Source: Company, LKP Research

E) Breakdown of ROA (%)	FY17	FY18	FY19e	FY20e	FY21e
Interest Income	8.4	7.7	7.6	7.8	8.0
Interest expenses	5.5	4.9	4.8	4.9	5.0
NII/avg assets	3.0	2.8	2.9	2.9	3.0
Non-NII/avg. assets	1.0	0.9	0.9	0.8	0.8
Total Income	4.0	3.7	3.7	3.8	3.8
Operating exp/avg. assets	2.1	1.9	1.9	1.8	1.7
Operating profit/avg assets	1.9	1.8	1.9	2.0	2.1
Provisions/avg. assets	0.6	0.7	0.7	0.8	0.8
PBT/avg. assets	1.3	1.1	1.2	1.2	1.3
Tax/avg. assets	0.5	0.4	0.4	0.4	0.5
PAT/avg. assets	0.8	0.7	0.8	0.8	0.9
F) Growth Rates (%)	FY17	FY18	FY19e	FY20e	FY21e
Interest Income	12.0	12.4	19.5	24.8	25.0
Interest Expenses	7.3	9.7	17.6	25.1	25.1
NII	21.9	17.4	22.8	24.3	24.9
Other Income	37.6	7.1	13.7	17.7	17.3
Total Income	25.6	14.7	20.6	22.8	23.2
Operating Income	35.2	19.0	23.8	30.9	30.6
Net Profit	74.7	5.8	33.4	28.6	31.7
Deposits	23.4	14.7	20.5	22.5	22.3
Advances	26.2	25.4	24.0	24.0	23.0
G) Other performance parameters	FY17	FY18	FY19e	FY20e	FY21e
No. of branches (No.)	1,252	1,252	1,258	1,264	1,270
No. of employees (No.)	11,593	12,112	12,580	12,640	12,700
Business per branch ((₹)	1,366	1,629	1,979	2,427	2,962
Profit per branch ((₹)	6.6	7.0	9.3	11.9	15.6
Business per employee ((₹)	147.5	168.4	197.9	242.7	296.2
Profit per employee ((₹)	0.7	0.7	0.9	1.2	1.6

Source: Company, LKP Research

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