

# Indostar Capital Finance

**BUY**

## Option value, unlike some...

INDOSTAR's 2QFY20 operating performance was ahead of estimates, due to sharp NIM improvement. Higher provisions dented earnings. GNPA's dipped QoQ but concerns persist on asset quality. Maintain BUY.

### HIGHLIGHTS OF THE QUARTER

- Overall AUMs dipped** ~7% QoQ to ~Rs 107bn, with a sharp ~26/16% reduction in corporate AUMs. The fall almost entirely owed to the non-real estate piece (-56/37%). VF AUM (~42% of the book and incl. co-originated loans ~Rs 1.6bn) fell 5% QoQ and SME AUM was flat. Overall disbursements registered a ~49/47% fall YoY/QoQ with liquidity constraints and lower financing demand. We expect AUM growth to slow significantly to 15% over FY20-22E, led by corporate de-growth. Funds availability can be a major impediment. The silver lining is that co-origination with ICICIB enables INDOSTAR to utilise opex.
- Asset Quality Improves, But Stress In Store:** Sequential reduction in GNPA's (-30% QoQ, 3.7% of AUM) was led by VF (-47%, 4%) and SME (-36%, 3.1%). Interestingly, there were negligible WOs; higher recoveries helped. Corporate GNPA's were stable QoQ at ~Rs 1.5bn (4.2%). Macro deterioration and real estate stress compel us to build ballooning Corporate GNPA's (~12.6% by FY22E) in our base case. Also, the ex real-estate corporate book holds

### Financial Summary

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Interest Income	2,190	1,791	22.3	1,931	13.5	5,177	7,500	8,341	10,585
PPOP	1,397	1,099	27.1	1,193	17.2	3,954	5,815	6,398	8,373
Reported PAT	495	637	- 22.3	477	3.8	2,408	2,453	2,839	4,169
EPS (Rs)	5.4	6.9	- 22.3	5.2	3.8	26.1	26.6	30.8	45.2
ROAE (%)						9.5	7.9	8.4	11.2
ROAA (%)						2.47	1.95	2.03	2.43
Adj. BVPS (Rs)						275.5	284.6	310.9	348.8
P/ABV (x)						0.71	0.69	0.63	0.56
P/E (x)						7.5	7.3	6.3	4.3

Source: Company, HDFC sec Inst Research

upcoming stress (fitness and media exposures ~Rs 2bn, currently std). Asset quality will be a slippery slope hereon, despite Indostar's inspiring track record.

- Provisions Rise Further, Will Stay High:** At Rs 722mn (2.6% ann.), provisions rose 19% QoQ (5x YoY). Of these, ~Rs 500mn was towards standard corporate exposures (Rs 2bn, partly incl. in GS-II). Given the anticipated increase in corporate delinquencies and low existing coverage (~20%), provisions will significantly rise over the rest of FY20E. We build LLPs of 1.93% over FY20-22E. Sensitivity to asset quality remains high, as our stress case (see inside) shows.

### STANCE

**Talent (and integrity) are intact, unlike some other stressed NBFCs. But INDOSTAR faces challenges on asset quality. This can affect liquidity, too, as the Indian NBFC experience over the trailing year shows. We've cut growth assumptions and hiked LLPs, resulting in a ~30% earnings cut and 340bps jump in overall GNPA's by FY22E. Even under our stress case scenario (~14% corporate slippage over FY20-22E and 11% loan CAGR), the stock trades for a mere 0.7x FY22E ABV. Indostar represents option value today. Equity value is volatile, but unlikely to evaporate. Upsides, on the other hand, look tantalising. BUY with a TP of Rs 330, 1x Sep-21E ABV.**

INDUSTRY	NBFCs
<b>CMP (as on 8 Nov 2019)</b>	<b>Rs 195</b>
<b>Target Price</b>	<b>Rs 330</b>
Nifty	11,908
Sensex	40,324

### KEY STOCK DATA

Bloomberg	INDOSTAR IN
No. of Shares (mn)	92
MCap (Rsbm) / (\$ mn)	18 / 252
6m avg traded value (Rsmn)	16

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 443/177		
	3M	6M	12M
Absolute (%)	(35.2)	(46.8)	(37.6)
Relative (%)	(43.3)	(53.5)	(52.0)

### SHAREHOLDING PATTERN (%)

	Jun-19	Sept-19
Promoters	60.7	60.7
FIs & Local MFs	15.6	17.9
FPIs	9.8	9.5
Public & Others	13.9	11.9
Pledged Shares	NIL	NIL

Source : BSE

### Darpin Shah

darpin.shah@hdfcsec.com  
+91-22-6171-7328

### Aakash Dattani

aakash.dattani@hdfcsec.com  
+91-22-6171-7337

**Our initial stance on INDOSTAR's corporate asset quality in charts:**

- 1) Controlled AUM growth over FY17-19, even as peers' books ballooned,
- 2) Historically superior asset quality (vs. peers)
- 3) Steady Retailisation
- 4) Historically high corporate repayment rates

**Spike in corporate GNPA's in 1QFY20, led by a single RE exposure of Rs 1.5bn; further stress buildup likely**

- **Sharp Margin Improvement:** Margins jumped ~130bps QoQ to ~8% as overall yields improved ~100bps QoQ while CoF increased ~20bps QoQ. All segments registered a rise in yields- VF (18.4%, +160bps QoQ), HF (16.5%, +80bps QoQ), SME (17.1%, +350bps QoQ) and corporate (14.9%, +20bps QoQ). Income recognised on securitised, assigned and co-originated loans (Rs 250mn) boosted yields. These levels may not sustain unless similar trends persist. CoF increased merely ~20bps QoQ to ~10.5%. With increasing reliance on off-B/S funding and re-pricing of existing bank borrowings (49%), CoF may see some moderation. We expect NIMs of 6.7% over FY20-22E.
- **Borrowings and Liquidity:** Borrowing fell ~6% QoQ to ~Rs 76bn, with a ~12/22% reduction in o/s NCDs. O/s bank borrowings increased ~2% QoQ. INDOSTAR raised ~Rs 5bn by way of assignment and securitisation and ~Rs 4.3bn from banks in 2Q. Trends in incremental funds raised and disbursements clearly suggest challenges here. Availability of funds will be the biggest determinant of growth.
- While recent disclosures suggests the co's liquidity position has improved significantly since 1Q (estimated surpluses across monthly buckets till Mar-20, supported by additional funds raised), sensitivity to expected loan repayment estimates remains high. As corporate loan repayments constitute a significant

portion of loan repayment estimates, deterioration in corporate asset quality could have a significant impact on the co's liquidity position. Further, the improved liquidity position appears to have been supported by a change in the pattern of payments to IIFL.

- **Co-origination Tie Up:** Even as organic growth using newly acquired branches may be difficult in the medium term, INDOSTAR will be able to utilise branch capacity and opex by way of the co-origination model with ICICIBC. In addition, such growth will be capital light, and the company will be required to deposit a fraction of the AUM generated as fixed deposits with ICICIBC, which in turn is assigned a much lower risk weight. Commentary suggests that INDOSTAR will make a 5-6% spread on co-originated assets (existing VF spreads: 6-7%).
- **Stress Case:** We believe our stress-case scenario (significantly higher slippages from the corporate book and consequent provisions, slower growth across segments due to constricted funding and therefore compressed RoAAs) depicts the (option) value here. The stock currently trades at 0.7x FY22E stress-case ABV. Even a measly 1x multiple (TP of Rs 278) implies a 42% upside. Liquidity events pose a significant risk to our base and stress- case estimates as they are difficult to capture (binary outcomes).

	Base Case		Stress Case		Chg bps/%	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Corp Slippages (%)	5.0	4.0	15.0	15.0	1,000	1,100
Corp GNPA's (%)	12.5	12.6	24.8	41.1	1,229	2,845
Corp AUM (%)	(2.2)	1.3	(15)	(16)	(1,233)	(1,785)
Tot AUM (%)	22.0	28.1	14.7	22.6	(729)	(553)
PCR (%)	56.0	58.2	44.5	46.6	- 1,149	- 1,158
LLPs (%)	1.9	1.60	2.32	2.77	41	117
ABV (Rs)	311	349	277	278	-11.0%	-20.2%
RoA (%)	2.03	2.43	1.61	1.37	(42)	(106)

Source: Company, HDFC sec Inst Research

**Five Quarters at a Glance**

(Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY Growth	QoQ Growth
Net Interest income (NII)	1,790.8	1,722.4	1,772.1	1,931	2,190	22.3%	13.5%
Total Operating Expenses	691.6	580.1	653.8	738	793	14.7%	7.4%
PPOP	1,099.2	1,142.3	1,118.3	1,193	1,397	27.1%	17.2%
Provisions And Write Offs	110.6	48.4	(73.4)	608	722	552.9%	18.8%
PBT	988.6	1,093.9	1,191.7	585	675	-31.7%	15.5%
Tax Expense	351.8	381.4	450.9	114	181	-48.5%	59.4%
<b>Reported PAT (incl. OCI)</b>	<b>636.7</b>	<b>712.5</b>	<b>742.6</b>	<b>465.0</b>	<b>493.4</b>	<b>-22.5%</b>	<b>6.1%</b>
<b>Other details</b>							
<b>Disbursements (Rs mn)</b>	<b>13,048</b>	<b>8,540</b>	<b>20,280</b>	<b>12,357</b>	<b>6,611</b>	<b>-49.3%</b>	<b>-46.5%</b>
Corp (%)	31.6	33.4	57.2	38.7	43.4	1177 bps	466 bps
SME (%)	27.3	12.8	7.5	11.2	10.0	-1729 bps	-116 bps
Housing (%)	12.9	12.3	6.4	8.2	13.9	105 bps	573 bps
VF (%)	28.2	41.5	28.8	41.9	32.6	447 bps	-923 bps
<b>AUM (Rs mn)</b>	<b>77,665</b>	<b>77,482</b>	<b>117,352</b>	<b>115,792</b>	<b>107,181</b>	<b>38.0%</b>	<b>-7.4%</b>
Corp (%)	62.7	57.8	38.6	37.2	33.8	-2882 bps	-336 bps
SME (%)	23.9	24.0	16.1	16.4	17.4	-655 bps	96 bps
Housing (%)	4.3	5.5	4.7	5.5	6.6	234 bps	111 bps
VF (%)	9.1	12.7	40.7	40.9	42.2	3303 bps	128 bps
<b>Borrowings (Rs mn)</b>	<b>58,032</b>	<b>62,223</b>	<b>89,357</b>	<b>80,863</b>	<b>76,246</b>	<b>31.4%</b>	<b>-5.7%</b>
<b>Profitability</b>							
Yield on Advances (%)	15.00	14.30	12.90	14.40	15.40	40 bps	100 bps
Cost of Funds (%)	9.70	9.90	9.70	10.30	10.50	80 bps	20 bps
Spreads	5.30	4.40	3.20	4.10	4.90	-40 bps	80 bps
NIM (%)	8.50	7.70	6.70	6.70	8.00	-50 bps	130 bps
Cost-Income ratio (%)	38.6	33.7	36.9	38.2	36.2	-242 bps	-203 bps
Tax rate (%)	35.6	34.9	37.8	19.4	26.8	-875 bps	738 bps
CRAR (%)	31.2	30.8	24.0	23.7	25.7	-550 bps	200 bps
<b>Asset Quality</b>							
GNPA	660	724	2,778	4,893	3,420	418.2%	-30.1%
NNPA	456	503	1,041	3,811	2,753	503.7%	-27.8%
GNPA (%)	0.90	0.90	2.60	4.70	3.70	280 bps	-100 bps
NNPA (%)	0.60	0.60	1.70	3.70	3.00	240 bps	-70 bps
PCR (%)	30.9	30.5	62.5	22.1	19.5	-1141 bps	-261 bps
<b>Segment wise GNPA</b>							
Corp (%)	0.40	0.30	-	3.50	4.20	380 bps	70 bps
SME (%)	2.40	3.20	3.10	4.00	3.10	70 bps	-90 bps
VF (%)	-	0.10	6.10	7.00	4.00	400 bps	-300 bps
Housing (%)	-	0.10	0.10	0.31	0.43	43 bps	12 bps

Above estimates, led by NIM improvement even as AUMs dipped; incl. ~Rs 250mn of assignment/securitisation/ co-origination related income

Incl. ~Rs 500mn of provisions on 2 std corporate a/cs (exposure Rs 2bn)

Sharp QoQ drop across most segments; availability of funds appears to be the challenge here

Led almost entirely by a ~56/37% reduction in non-real estate corporate AUMs

Real estate loans were nearly flat QoQ and form ~73% of corporate AUMs

Broad-based increase, aided by income on securitisation, assignment and co-origination

Bump up due to de-growth of the book; pursuit of an asset-light model (more off-B/S growth) will be capital efficient

Corporate GNPA's were flat QoQ at ~Rs 1.5bn, % increase was due to decrease in the o/s book

Sharp improvement in VF GNPA's led by recoveries as WOs were negligible

Source: Company, HDFC sec Inst Research

**A sharp QoQ dip in disburseals was observed across most segments, except the HF segment which saw only a ~9% QoQ dip**

**INDOSTAR commenced co-originating loans for ICICIBC, these transactions amounted to ~Rs 1.6bn in 2QFY20; the mgt estimates potential qtrly co-origination at ~Rs 6-7bn**

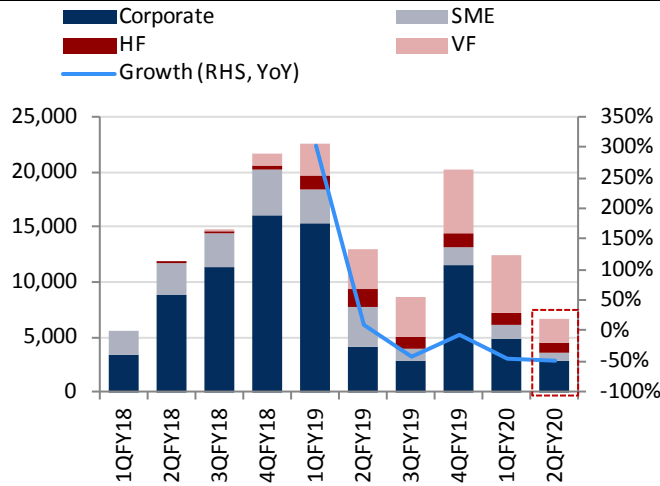
**The mgt remains cautious on SME lending due to macro-economic conditions and INDOSTAR's own liquidity position**

**INDOSTAR has commenced SME lending under the partial credit guarantee scheme of the SIDBI, these loans are unsecured thus yield more**

**On-book AUMs dipped ~11% QoQ and off-book AUMs increased ~17% QoQ**

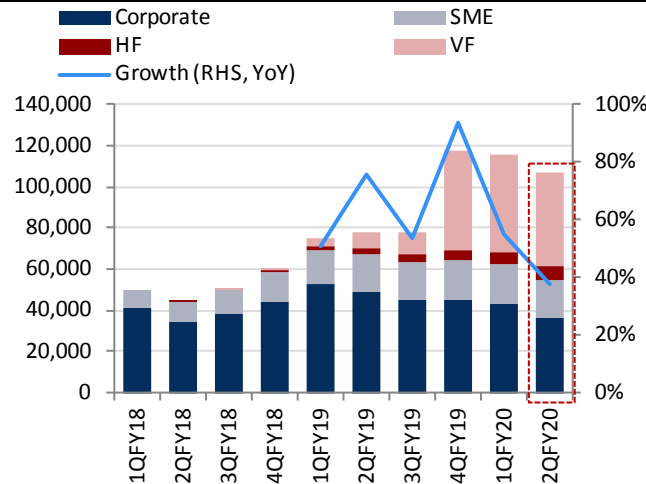
**The mgt expects a 75-25 Retail-Corporate AUM mix by FY20E**

**Disburseals: Sequential Dip Across Segments**



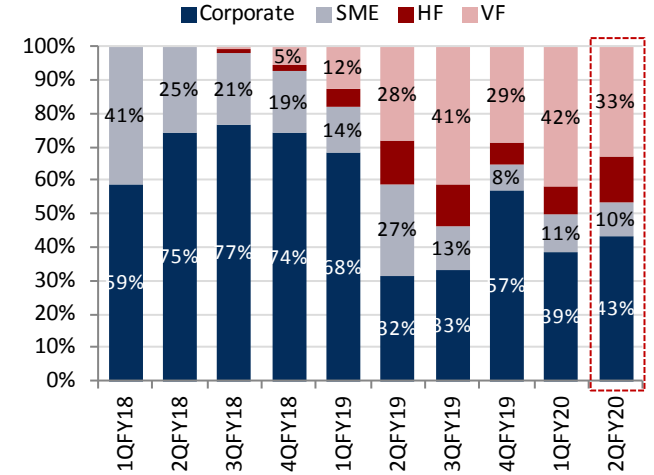
Source: Company, HDFC sec Inst Research

**AUM Dips ~7% QoQ**



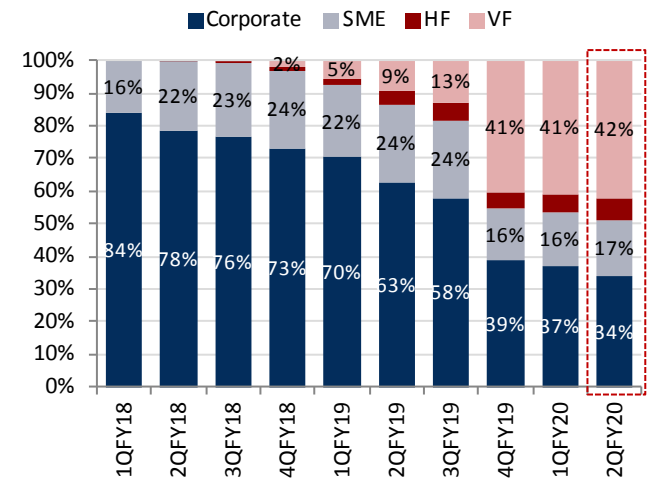
Source: Company, HDFC sec Inst Research

**Disburseals Mix: Share of Corporate Dips QoQ**



Source: Company, HDFC sec Inst Research

**AUM Breakup: Retail At ~66%**



Source: Company, HDFC sec Inst Research

**The non-real estate corporate book dipped ~56/37%**

**Commentary indicates that INDOSTAR is likely to recover ~Rs 3bn from RE projects with an o/s of ~Rs 4-5bn that were recently granted an OC**

**~Rs 6-7bn of RE projects are ~40-60% complete**

**INDOSTAR raised ~Rs 4.3bn from banks, ~Rs 2.97bn by way of assignment and ~Rs 2.1bn by way of securitisation during the qtr**

**Credit ratings were retained as follows:**

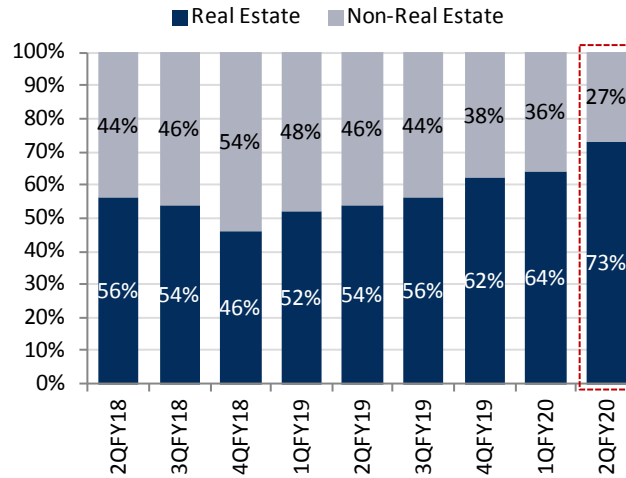
**Term Loans AA-  
NCDs AA-  
CPs A1+**

**Higher income on securitisation, assignment and co-origination (~Rs 250mn) aided yield and margin improvement**

**Sanctions received under the govt's partial credit guarantee scheme Rs 1.5bn**

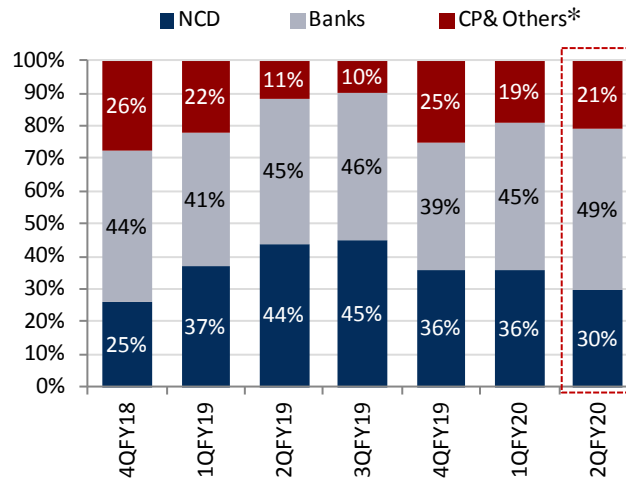
**The mgt is contemplating raising foreign borrowings; the promoters' backing should help here**

**Corporate Book Split: Share of Non-RE Dips**



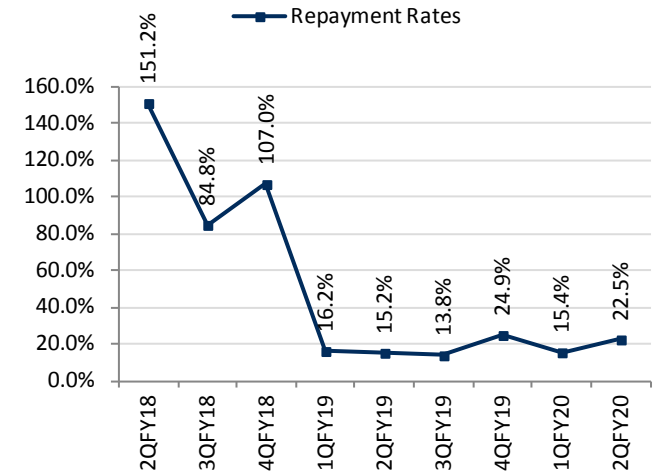
Source : Company, HDFC sec Inst Research

**Borrowing Mix: Share of NCDs Reduces**



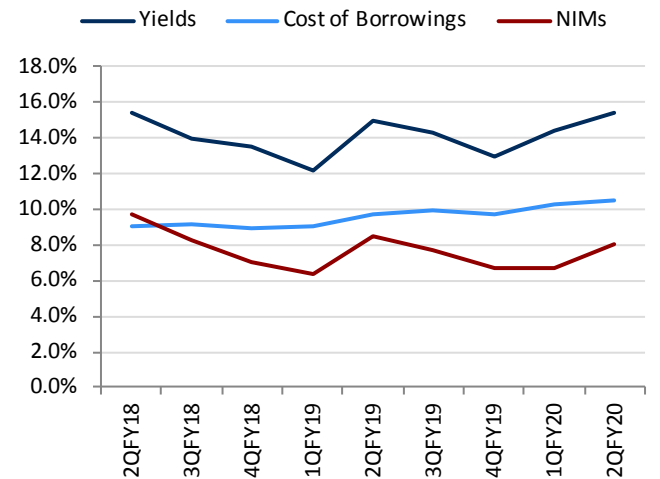
Source : Company, HDFC sec Inst Research; \* 2HFY19 incl. assignment (22% in 4Q)

**Calc. Corporate Repayment Rates Rise**



Source : Company, HDFC sec Inst Research

**Margin Movement: Sharp Increase QoQ**



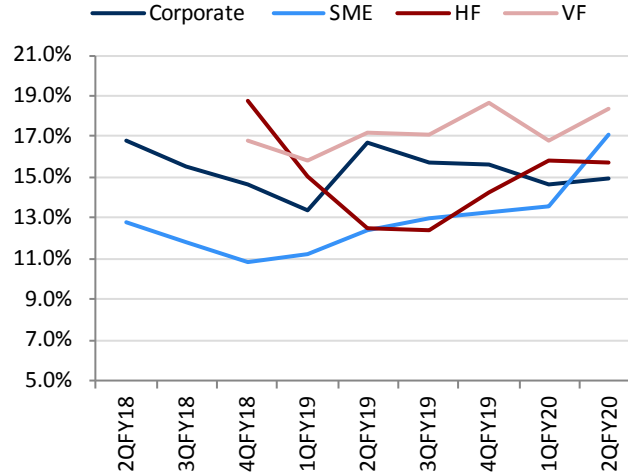
Source : Company, HDFC sec Inst Research

**Higher yields on unsecured SME lending under the SIDBI scheme propped up SME yields**

**The divergent movement of the C-I and C-AA ratios is a consequence of the increase in off-B/S lending**

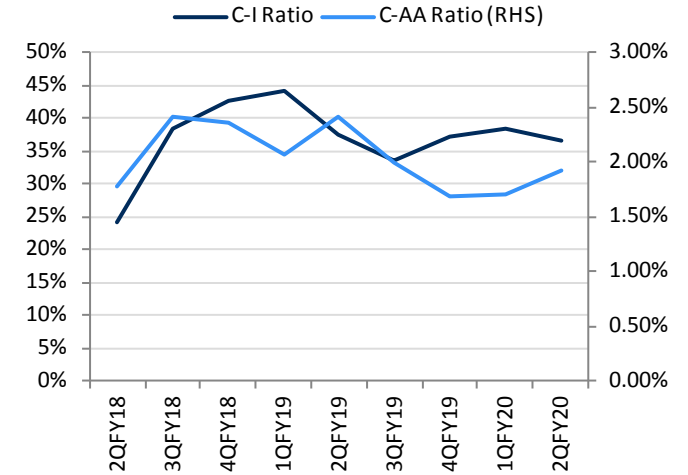
**The number of employees in the VF segment decreased by 200 QoQ**

**Segment-Wise Yields: Broad-Based Jump**



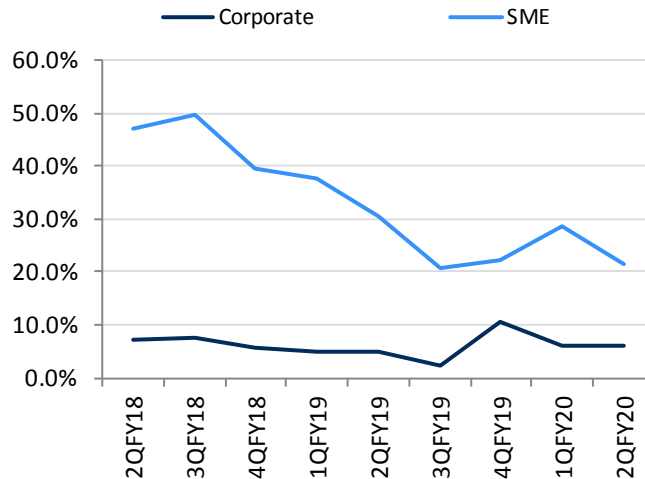
Source : Company, HDFC sec Inst Research

**C-I Falls and C-AA Rises**



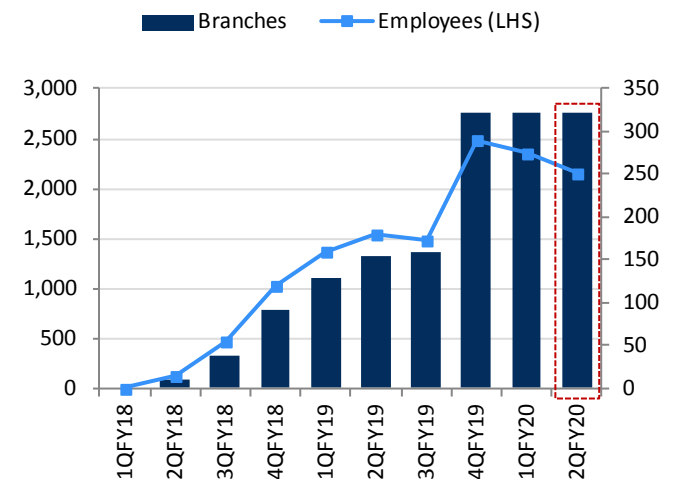
Source : Company, HDFC sec Inst Research

**Segment-Wise C-I Ratios: SME Improves**



Source : Company, HDFC sec Inst Research

**Branches And Employees: Staff Count Dips QoQ**



Source : Company, HDFC sec Inst Research

**O/S corporate GNPA's were flat QoQ at ~Rs 1.5bn, the % increase was due to the fall in o/s loans**

**The mgt expects stress from 2 standard corporate a/cs in the Media Industry (not yet defaulted, o/s of ~Rs 1.5bn, of which ~Rs 350mn of provisions have been made)**

**Fitness Industry (less than 30dpd, but here a significant increase in credit risk has been assumed, o/s of ~Rs 600mn, down from ~Rs 1bn, of which ~Rs 150mn has been provided for)**

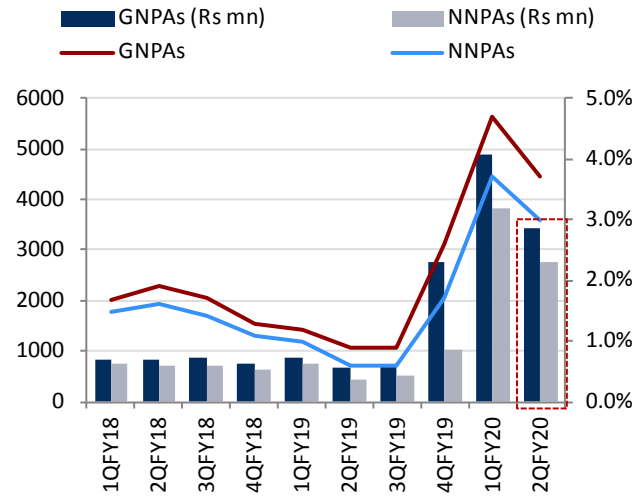
**GS-II (corporate) includes only the fitness industry exposure**

**Interestingly, the mgt does not see more stress in the RE book and expects to recover the ~Rs 1.5bn that slipped in 1Q, within FY20E**

**Improvement in VF GNPA's was due to recoveries and WOs were ~Rs 50-100mn**

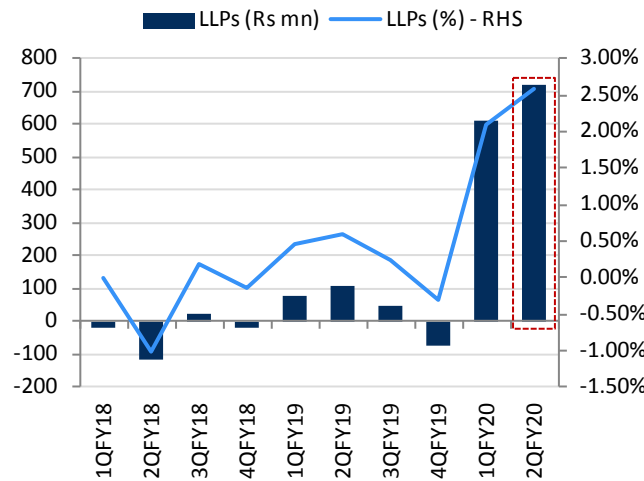
**Improvement in SME GNPA's was on a/c of sale to ARCs of ~Rs 270mn**

**G/NNPAs: Improvement QoQ**



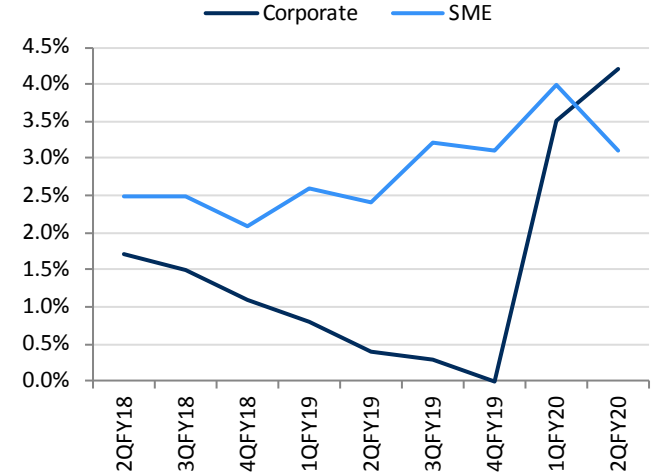
Source : Company, HDFC sec Inst Research

**Provisions Rise, Led By Corporate**



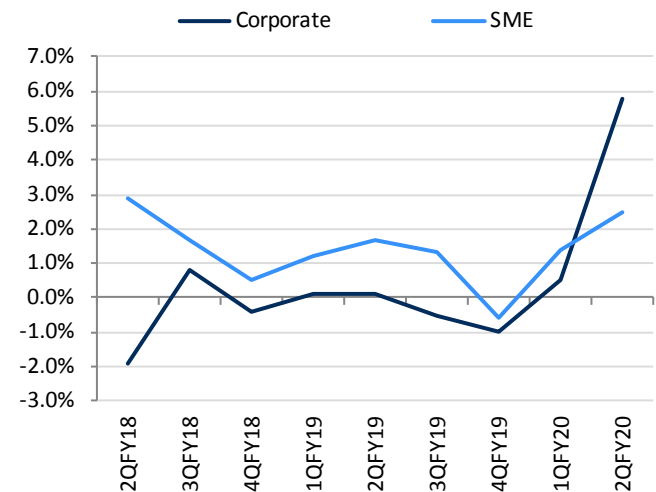
Source : Company, HDFC sec Inst Research

**Segment-Wise GNPA's: SME Improves QoQ**



Source : Company, HDFC sec Inst Research; 1QFY18 onwards as per IND-AS

**Segment-Wise Provisions: Rise In Corporate**



Source : Company, HDFC sec Inst Research

**Comparative Analysis of Liquidity Profile (2QFY20 vs 1QFY20):**

**(1) Significant Improvement, led by additional fund-raising, in excess of earlier projections**

**(2) Sensitivity of ALM to repayments and thus corporate stress events remains high**

**(3) Significant reduction in estimated loan repayment principal repayments between 1QFY20 and 2QFY20**

**(4) Significant change in outflows for repayment of NCDs and**

**(5) Change in the pattern of payments to IIFL**

### Liquidity Profile: 2QFY20

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	1QFY21	2QFY21	Q3FY21	Q4FY21
Opening Cash & Equivalents	10,270	9,131	6,486	5,069	4,333	4,730	4,891	8,110	11,137	15,558
Loan repayment inflows [Principal]	1,240	1,218	2,118	2,552	1,365	1,593	6,185	5,716	7,262	5,729
Total Inflow	11,510	10,349	8,604	7,621	5,698	6,323	11,076	13,826	18,399	21,287
Liability Repayment [Principal]										
Commercial Paper	-	-	1,900	-	-	-	-	-	-	-
NCDs	-	500	-	-	250	500	250	-	-	-
IIFL Payouts	1,670	1,670	-	2,551	-	-	-	-	-	-
Term Loans & Others	709	1,693	1,635	737	718	932	2,716	2,689	2,341	3,410
Total Outflow	2,379	3,863	3,535	3,288	968	1,432	2,966	2,689	2,841	7,366
Closing Cash & Equivalents	9,131	6,486	5,069	4,333	4,730	4,891	8,110	11,137	15,558	13,921

### Liquidity Profile: 1QFY20

	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Opening Cash and Cash Equivalents	7,824	3,192	1,602	4,446	8,036	10,521	16,056
Additional Funding	7,770	4,000					
Loan Repayment Inflows	5,296	5,689	6,454	6,560	5,189	8,367	6,337
Total Inflows	20,890	12,881	8,056	11,006	13,225	18,888	22,393
CP Repayment		1,900					
NCD Repayment	7,250	500	750	250		500	3,912
IIFL Payout	5,010	5,010	470				
Term Loan & Others Repayment	5,390	3,869	2,390	2,720	2,704	2,332	3,425
ICD Repayment	48						
Total Outflows	17,698	11,279	3,610	2,970	2,704	2,832	7,337
Closing Cash & Cash Equivalents	3,192	1,602	4,446	8,036	10,521	16,056	15,056

### Liquidity Profile: 4QFY19

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Opening Cash and Cash Equivalents	18,839	14,277	4,420	1,652	267	3,700	6,881	13,099
Additional Funding	4,200							
Loan Repayment Inflows	4,485	5,375	7,679	6,382	5,962	5,362	8,544	6,403
Total Inflows	27,524	19,652	12,099	8,034	6,229	9,062	15,425	19,502
CP Repayment	1,150		1,900					
NCD Repayment	3,050	7,250	500	750	250		500	3,850
IIFL Payout	5,130	5,130	5,130	5,130				
Term Loan & Others Repayment	3,917	2,842	2,917	1,883	2,209	2,181	1,826	2,919
ICD Repayment		10		4	70			
Total Outflows	13,247	15,232	10,447	7,767	2,529	2,181	2,326	6,769

Source : Company, HDFC sec Inst Research



**Peer Set Comparison**

NBFC	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
SHTF	253	1,115	BUY	1,524	597	776	964	8.2	7.3	6.5	1.87	1.44	1.16	18.0	17.2	16.8	2.76	2.71	2.72
CIFC	232	297	BUY	413	83	103	128	15.9	12.4	10.9	3.56	2.88	2.32	21.3	22.4	21.0	2.34	2.57	2.54
LICHF	222	439	NEU	457	289	336	395	8.5	7.6	6.7	1.52	1.31	1.11	15.1	14.9	14.9	1.22	1.20	1.19
MMFS#	202	329	BUY	417	141	163	192	13.8	11.0	9.6	2.21	1.90	1.62	12.1	13.8	14.3	1.94	2.17	2.23
REPCO	19	299	BUY	419	247	296	355	6.5	5.7	4.9	1.21	1.01	0.84	17.3	16.9	16.7	2.43	2.44	2.48
<b>INDOSTAR</b>	<b>18</b>	<b>195</b>	<b>BUY</b>	<b>330</b>	<b>285</b>	<b>311</b>	<b>349</b>	<b>7.3</b>	<b>63</b>	<b>4.3</b>	<b>0.69</b>	<b>0.63</b>	<b>0.56</b>	<b>7.9</b>	<b>8.4</b>	<b>11.2</b>	<b>1.95</b>	<b>2.03</b>	<b>2.43</b>

Source: Company, HDFC sec Inst Research; # Adjusted for subsidiary

**Income Statement**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	7,631	10,813	16,393	17,731	22,097
Interest Expended	3,255	5,636	8,892	9,390	11,512
<b>Net Interest Income</b>	<b>4,376</b>	<b>5,177</b>	<b>7,500</b>	<b>8,341</b>	<b>10,585</b>
Other Income	258	1,244	1,428	1,574	1,943
<b>Total Income</b>	<b>4,634</b>	<b>6,420</b>	<b>8,929</b>	<b>9,915</b>	<b>12,528</b>
Total Operating Exp	1,548	2,466	3,114	3,518	4,155
<b>PPOP</b>	<b>3,087</b>	<b>3,954</b>	<b>5,815</b>	<b>6,398</b>	<b>8,373</b>
Provisions & Contingencies	- 38	162	2,536	2,604	2,802
<b>PBT</b>	<b>3,125</b>	<b>3,791</b>	<b>3,279</b>	<b>3,794</b>	<b>5,571</b>
Provision For Tax	1,121	1,384	825	955	1,402
<b>PAT</b>	<b>2,003</b>	<b>2,408</b>	<b>2,453</b>	<b>2,839</b>	<b>4,169</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share capital	787	923	923	923	923
Reserves and surplus	19,960	29,140	31,493	34,216	38,214
<b>Shareholders' Funds</b>	<b>20,747</b>	<b>30,063</b>	<b>32,416</b>	<b>35,139</b>	<b>39,136</b>
Borrowings	48,228	89,357	84,999	100,938	129,309
Other Liabilities	2,963	3,581	11,035	15,443	23,299
<b>Total Liabilities</b>	<b>71,938</b>	<b>123,002</b>	<b>128,449</b>	<b>151,519</b>	<b>191,744</b>
<b>APPLICATION OF FUNDS</b>					
<b>Advances</b>	<b>59,004</b>	<b>103,637</b>	<b>111,840</b>	<b>136,402</b>	<b>174,742</b>
Investments	10,070	3,009	2,858	2,715	2,444
Fixed assets	641	702	772	850	935
Other Assets	2,222	15,654	12,978	11,552	13,624
<b>Total Assets</b>	<b>71,938</b>	<b>123,002</b>	<b>128,449</b>	<b>151,519</b>	<b>191,744</b>

Source: Company, HDFC sec Inst Research

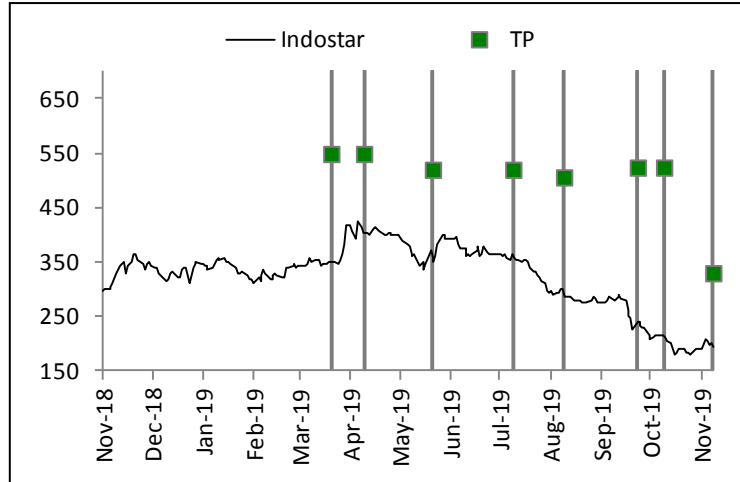
## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>VALUATION RATIOS</b>					
EPS (Rs)	25.5	26.1	26.6	30.8	45.2
Earnings Growth (%)	- 5.0	20.2	1.9	15.7	46.8
BVPS (Rs)	263.7	325.9	351.4	380.9	424.2
Adj. BVPS (Rs)	256.1	275.5	284.6	310.9	348.8
DPS (Rs)	-	1.0	0.9	1.1	1.6
ROAA (%)	3.2	2.5	2.0	2.0	2.4
ROAE (%)	10.2	9.5	7.9	8.4	11.2
P/E (x)	7.7	7.5	7.3	6.3	4.3
P/ABV (x)	0.76	0.71	0.69	0.63	0.56
P/PPOP (x)	2.5	2.3	1.5	1.4	1.1
Dividend Yield (%)	-	0.5	0.5	0.6	0.8
<b>PROFITABILITY</b>					
Yield On Advances (%)	13.34	12.05	14.30	14.29	14.20
Cost Of Funds (%)	7.94	8.19	10.20	10.10	10.00
Core Spread (%)	5.39	3.86	4.10	4.19	4.20
NIM (%)	7.65	5.77	6.55	6.72	6.80
<b>OPERATING EFFICIENCY</b>					
Cost/Avg. Asset Ratio (%)	2.7	2.7	2.7	2.8	2.7
Cost-Income Ratio	33.4	38.4	34.9	35.5	33.2
<b>BALANCE SHEET STRUCTURE RATIOS</b>					
Loan Growth (%)	18.6	89.1	- 4.7	22.0	28.1
Borrowings Growth (%)	43.0	85.3	- 4.9	18.8	28.1
Equity/Assets (%)	28.8	24.4	25.2	23.2	20.4
Equity/Loans (%)	33.4	25.6	29.0	25.8	22.4
Total CRAR	28.3	24.0	26.0	24.8	22.3
Tier I	28.0	21.7	23.5	22.1	19.4
<b>ASSET QUALITY</b>					
Gross NPLs (Rs mn)	943.2	2,770.6	6,264.8	7,837.0	9,466.3
Net NPLs (Rs mn)	596.8	1,642.1	3,154.5	3,449.4	3,959.1
Gross NPLs (%) Total Assets	1.30	2.36	5.60	5.75	5.42
Net NPLs (%) Total Assets	1.10	1.40	2.82	2.53	2.27
Coverage Ratio (%)	15.4	40.7	49.6	56.0	58.2
Provision/Avg. Loans (%)	- 0.06	0.14	2.27	1.91	1.60

ROAA TREE	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	6.96%	5.31%	5.97%	5.96%	6.17%
Non-Interest Income	0.41%	1.28%	1.14%	1.12%	1.13%
Operating Cost	2.46%	2.53%	2.48%	2.51%	2.42%
Provisions	-0.06%	0.17%	2.02%	1.86%	1.63%
Tax	1.78%	1.42%	0.66%	0.68%	0.82%
ROAA	3.19%	2.47%	1.95%	2.03%	2.43%
Leverage (x)	3.21	3.84	4.02	4.14	4.62
ROAE	10.24%	9.48%	7.85%	8.40%	11.22%

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
25-Mar-19	350	BUY	549
9-Apr-19	413	BUY	549
22-May-19	358	BUY	520
9-Jul-19	355	BUY	520
10-Aug-19	287	BUY	506
22-Sep-19	225	BUY	524
9-Oct-19	218	BUY	524
11-Nov-19	195	BUY	330

**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

**INSTITUTIONAL RESEARCH**
**Disclosure:**

We, **Darpin Shah, MBA & Aaksh Dattani, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

**Any holding in stock –No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

**HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193**

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.