INDIA

HFC

CENTRUM

GIC Housing Finance

Buy

Company Update **20 February 2014**

Potential candidate for re-rating

Our recent meeting with GIC Housing Finance (GICHF) management reinforced the belief in its ability to grow steadily with its focus on the customer segment and efforts to reduce NPAs. Favourable sector dynamics coupled with a) retail nature of loan portfolio b) stable 2.5% spreads c) receding asset quality concerns d) decent 1.9% RoA /17% RoE and e) 30%+ dividend payout ratio for the past 10 years, makes us believe that valuations at 0.7x Dec'15E ABV of Rs140 warrant re-rating (particularly when compared to the peer set). We retain Buy rating on GICHF with a revised target price of Rs140 (valued at 1x Dec'15E ABV).

- **In no hurry to chase growth:** Though GICHF's market share has declined against its peers, the management said they were in no hurry to chase growth, given the uncertain environment. Niche target audience (lower middle income segment), presence in only tier-I / II cities and largely salaried nature of customer base continue to remain key features that make us believe that the cautious strategy is a much prudent step. We are factoring 17% / 19% CAGR in loan portfolio / disbursements over FY13-16E.
- **Spreads remain intact; asset quality issue addressed carefully:** Strong parentage and improved credit rating have enabled GICHF to borrow at competitive rates and protect spreads at 2.5% levels in past quarters. Measures taken to address asset quality related issues have started showing positive signs as GNPA reduced from 3.9% in FY10 to 1.8% in Q3FY14. Provision coverage ratio at 100%, adds to the comfort, especially when compared to Repco Home's PCR at 37%. Incremental delinquencies are near zero levels.
- **Healthy capital position; Q3FY14 results below estimates, but no major concerns:** Tier I CAR at 14% will support loan growth at 18% over FY14-16E as the portfolio is largely towards LMI group (70% of loans are below Rs1.5mn), and needs less capital (risk weights are low). Q3FY14 results disappointed on the P&L front, led by higher than expected borrowing costs. However, the sequential decline in GNPA and 100% provision coverage ratio came in as a positive.
- **Valuation, view and key risks:** We have lowered our earnings estimates for FY14E / FY15E by 5% / 6% and factor in 18% CAGR in loan portfolio / net profit over FY14-16E. Positive levers (ie stable and focused loan growth, declining NPA trend and decent return ratios) are in place and with further improvement will see valuation multiple get re-rated. Increased management visibility can also add to the re-rating (going by the past trends and as was seen in the case of the peer set HFC). Lower than expected loan growth, limited ability to pass interest rates to the borrower and asset quality related issue remain key risks to our call.

Target Price	Rs140
CMP*	Rs95
Upside	47%
Previous Target	Rs150
Previous Rating	Buy

Price Performance (%)*

	1M	6M	1Yr
GICHF IN	(10.2)	13.9	(23.3)
Nifty	(3.0)	13.2	2.9

Key Data	
Bloomberg Code	GICHF IN
Curr Shares O/S (mn)	53.9
Diluted Shares O/S(mn)	53.9
Mkt Cap (Rs bn/USDmn)	5.1/82.8
52 Wk H / L (Rs)	128.5/78.1
5 Year H / L (Rs)	164/28
Daily Vol. (3M NSE Avg.)	238802

*as on 19 February 2014; Source: Bloomberg, Centrum Research

Shareholding pattern (%)

	Dec-13	Sep-13	Jun-13	Mar-13
Promoter	41.3	41.3	41.3	41.7
FIIs	3.9	3.9	3.9	4.0
DIIs	5.1	5.1	5.8	5.8
Others	49.7	49.7	49.0	48.5

Source: BSE

Comparative table across similar sized HFCs'

FY13 (%)	GICHF	Repco Home	Gruh Finance
GNPA	1.8	2.0	0.4
PCR	100	37	100
RoA*	1.9	2.3	3.0
RoE*	16.2	17.1	33.4
P/ABV (Dec'15 ABV)	0.7	2.0**	5.2**
Branches	43	82	138

Source: Company, Centrum Research *FY13 ** denotes consensus estimates

Earning Revision

Particulars (Rs mn)	FY14E			FY15E		
	New	Old	Chg (%)	New	Old	Chg (%)
NII + Oth inc.	2,018	2,092	(3.5)	2,380	2,486	(4.2)
PPOP	1,555	1,627	(4.4)	1,827	1,929	(5.3)
PAT	949	1,000	(5.1)	1,114	1,184	(5.9)

Source: Centrum Research

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY14E			FY15E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	2,018	-	-	2,380	-	-
PPOP	1,555	1,617	(3.8)	1,827	1,951	(6.3)
PAT	949	997	(4.8)	1,114	1,194	(6.7)

*as on 19 February 2014; Source: Bloomberg, Centrum Research Estimates

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
4	0	0	138	140	1.6

Source: Bloomberg, Centrum Research Estimates

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Y/E Mar (Rs mn)	NII	PPOP	Adj PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY12	1,122	981	590	(48.1)	11.0	8.7	92.3	1.0	1.5	12.3
FY13	1,642	1,400	850	44.0	15.8	6.0	102.2	0.9	1.9	16.2
FY14E	1,831	1,555	949	11.6	17.6	5.4	113.4	0.8	1.9	16.3
FY15E	2,153	1,827	1,114	17.4	20.7	4.6	127.1	0.7	1.9	17.2
FY16E	2,547	2,153	1,311	17.7	24.3	3.9	143.8	0.7	1.9	18.0

Source: Company, Centrum Research Estimates

In no hurry to chase growth; factoring 17% CAGR in loan portfolio

Cautious strategy towards growth (15% CAGR) vis-à-vis the industry average (25% CAGR) between FY07-13 saw GIC housing Finance lose market share to its peers and currently accounts for sub-2% of the individual mortgage credit among HFCs. Management said they were in no hurry to chase growth (unlike peers) given the uncertain environment. However, the niche target audience (LMI segment), and presence in tier-I and tier-II cities, leave immense room for growth that will gather momentum as the cycle turns favourable.

Exhibit 1: Housing finance Cos market share in the Indian individual mortgage space

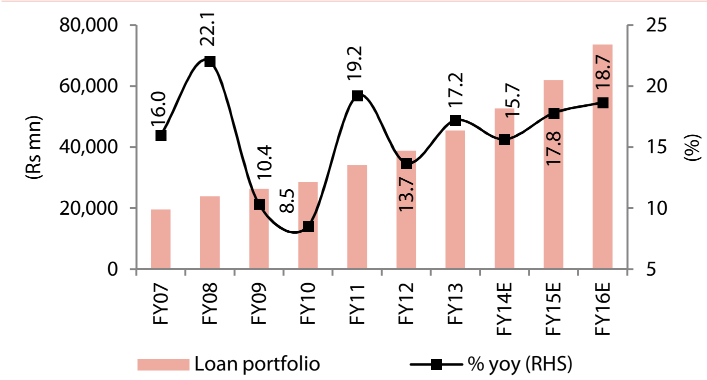
%	FY08	FY09	FY10	FY11	FY12	FY13	9mFY14	Loan CAGR (%) FY07-13
HDFC	63.1	60.5	55.7	51.9	50.8	49.0	49.9	20.0
LIC	25.8	27.5	30.9	32.9	34.3	33.1	31.9	29.7
DEWH*	4.8	5.9	7.5	9.5	9.1	12.4	12.1	46.7
Gruh Finance	2.3	2.3	2.2	2.1	2.1	2.2	2.5	23.9
GIC Housing	**3.1**	**2.9**	**2.6**	**2.3**	**2.2**	**2.0**	**1.9**	**15.0**
Repco Home	0.8	0.9	1.1	1.2	1.4	1.3	1.6	38.2

*Source: Companies, Centrum Research * consolidated entity*

- Declining corporate credit and the need for secured lending have turned banks increasingly towards mortgage business, intensifying the pricing war. Removal of prepayment penalty charges has added to their woes with borrowers resorting to window shopping. GICHF, customer profile being salaried class, too has been impacted and the company has resorted to cautious lending. We believe that as the cycle reverses (as in the past) and banks focus again at corporate credit, there will be enough room for HFCs to grow.

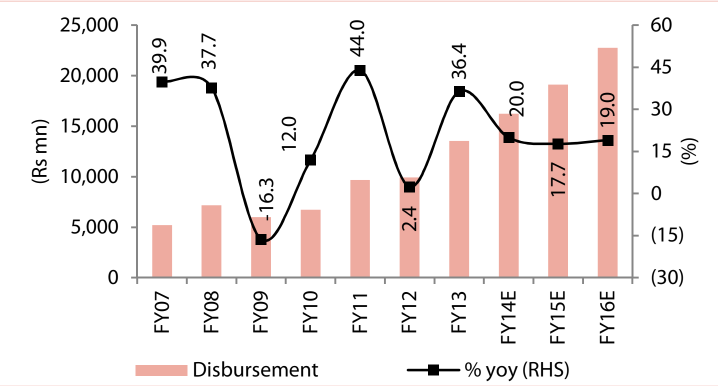
- GICHF is different from other small-sized players as a) 87% of its loans are towards salaried class and most of it for first-time owners and b) the customer segment is typically middle income / lower middle income in tier-I / tier-II cities c) loans are offered to the affordable segment (average incremental ticket size at Rs1.2mn) and d) is majorly present in West India. The favourable sector dynamics coupled with the target audience makes us believe that 17% / 19% CAGR in loans / disbursements over FY13-16E is easily achievable. Repayment rate at 18-19% is largely in-line with peer set - Repco Home (15-16%), Gruh Finance (20%) and Dewan Housing (21%).

Exhibit 2: Trend in loan portfolio…



Source: Company, Centrum Research Estimates

Exhibit 3: … and disbursement growth



Source: Company, Centrum Research Estimates

Exhibit 4: Key areas of operations for the smaller HFC's

FY13	GICHF	Repco Home	Gruh Finance
Major area of operations	West India	South India	West India
States and % of business / branches	Maharashtra, Goa and Gujarat account for 55% of business	Tamil Nadu, Andhra Pradesh, Karnataka account for 90% of branches	Maharashtra and Gujarat account for 60% of branches, expanding reach to MP, Rajasthan and Chhattisgarh

Source: Companies, Centrum Research

Spreads intact; asset quality issue addressed

Strong parentage and improvement in credit rating (long term bank lines – ICRA AA+ and CP and short term bank lines – ICRA A+) and also from CRISIL (recently) has helped GICHF borrow at competitive rates. The borrowing mix, however, is still skewed towards bank borrowing as it helps address any ALM related issue and is priced at near base rate. Access to NHB window is limited (15%) vis-à-vis its peers given its geographic presence and subordinated debt / CP account for 3% of total borrowing.

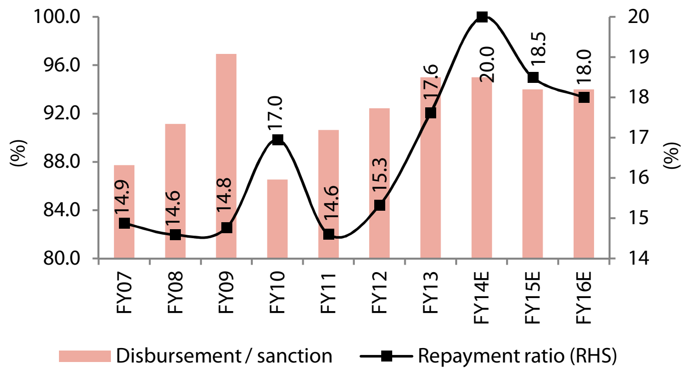
- We however remain impressed by GICHF's ability to maintain spreads in excess of 2.5% for past quarters and attribute this to the customer segment and limited competition. Retail prime lending rate is at 12.5% and loans are based on the credit score card of the borrower. Credit appraisal and processing are done at the head-office, limiting possibility of mis-selling or concessional lending.
- While interest rates are expected to remain sticky, the ability to pass on the rate hike will protect the company from any severe shocks on the NIM front. We expect spreads to hover at 250bps over FY13-16E and factor in NIM (calc) at 3.6% levels over FY13-16E.

Exhibit 5: Borrowing mix – GICHF vis-à-vis peers

Borrowing mix - % of total (FY13)	GICHF	Gruh Finance	Repco Home
- Bank	*82.6*	*28.0*	*51.0*
- NHB	*14.5*	*47.0*	*37.0*
- Bonds	*2.9*	*11.0*	*-*
- Others (Fixed deposit / CP)	*-*	*14.0*	*12.0*

Source: Companies, Centrum Research

Exhibit 6: Trend in sanction / disbursement and repayment



Source: Company, Centrum Research Estimates

- GICHF has made considerable efforts in addressing issues around asset quality. Collection centres have been set up in select pockets, special teams are now being designated to look after the recovery process and measures are also underway to resort to ECS mode of collection to the PDC route. The cumulative effect of these measures is reflected in a decline in GNPA from 3.9% in FY10 to 1.8% in Q3FY14. This however, seems on the higher side when compared to peers - Gruh Finance (0.5%), LIC Housing (0.9%), HDFC (0.8%) and lower to Repco (2%). We, however, derive comfort in the fact that a) incremental delinquency has been near zero levels and b) provision coverage ratio is by far the best at 100% vis-à-vis similar sized companies - Repco Home at 37%.

Exhibit 7: GICHF has seen reduction in its overall GNPA ratio…

GNPA %	FY10	FY11	FY12	FY13	9mFY14
GICHF	*3.90*	*2.98*	*2.21*	*1.96*	*1.80*
Repco Home	*1.24*	*1.21*	*1.37*	*1.48*	*2.03*
Gruh Finance	*1.37*	*1.11*	*0.6*	*0.32*	*0.46*

Source: Companies, Centrum Research

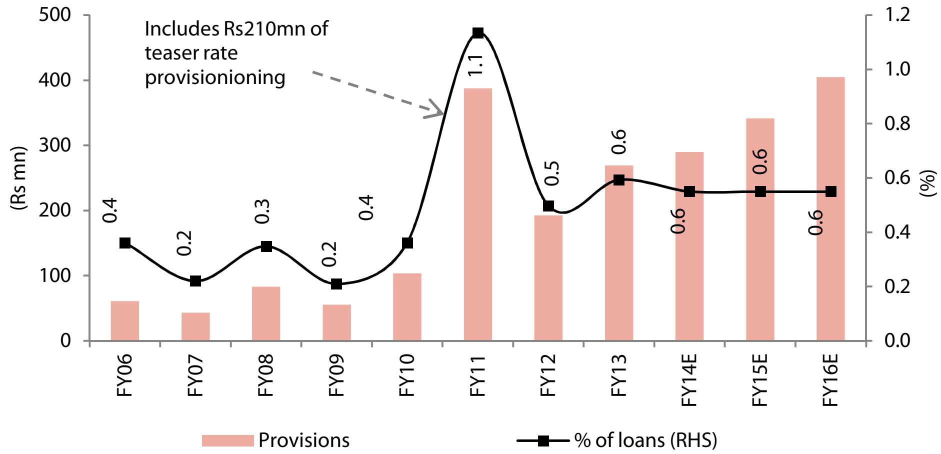
Exhibit 8: … and consistently provided for the same

	Housing loan		Non-housing loan		Total	
	GNPA %	*PCR %*	*GNPA %*	*PCR %*	*GNPA %*	*PCR %*
FY10	*4.0*	*58.9*	*0.0*	*0.0*	*4.0*	*58.9*
FY11	*3.1*	*83.4*	*0.0*	*0.0*	*3.1*	*83.4*
FY12	*2.3*	*100.0*	*0.1*	*100.0*	*2.3*	*100.0*
FY13	*2.1*	*100.0*	*0.2*	*100.0*	*2.0*	*100.0*

Source: Company, Centrum Research

GICHF has a cumulative provisioning of Rs1.5bn on its balance sheet, including Rs145mn of teaser rate provisioning. Retail loans account for more than 95% of the portfolio and has seen GNPAs decline to 1.86% in FY13 (further to 1.8% as at H1FY14) against 2.1% in FY12 and overall GNPA at 1.95%. ***Incremental slippage from the retail portfolio has remained limited and the current level of GNPA is largely from the legacy portfolio.***

Exhibit 9: Trend in GNPA and provisioning thereby



Source: Company, Centrum Research Estimates

Capital position remains healthy; RoA /RoE remain intact

GICHF has adequate capital (tier I CAR at 14%) to support loan growth of 18% over FY14-16E as the portfolio is largely towards lower income group (70% of loans are below Rs1.5mn), thereby consuming less capital (risk weights are at 50%-75%). We believe favorable sector dynamics, ability to generate steady 2.5%+ spreads, cost rationalization process, receding asset quality concerns and superior return ratios at 1.9% / 17% RoA /RoE warrant a case for re-rating.

Exhibit 10: Dupont analysis

% of average assets	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Spreads	*3.0*	*3.5*	*2.9*	*2.3*	*2.9*	*2.5*	*2.5*	*2.6*
Net interest margins	*3.6*	*3.8*	*3.3*	*2.8*	*3.7*	*3.6*	*3.6*	*3.7*
Net Income total	***3.8***	***4.2***	***3.7***	***3.2***	***4.0***	***4.0***	***4.0***	***4.0***
Operating expenses total	*0.6*	*0.7*	*0.8*	*0.7*	*0.9*	*0.9*	*0.9*	*0.9*
Provisions	*0.2*	*0.4*	*1.2*	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*
Reported Profit after tax	***2.1***	***2.3***	***3.4***	***1.5***	***1.9***	***1.9***	***1.9***	***1.9***
Adjusted profit after tax	*2.1*	*2.3*	*1.3*	*1.5*	*1.9*	*1.9*	*1.9*	*1.9*
RoAE	***17.2***	***18.3***	***10.5***	***12.3***	***16.2***	***16.3***	***17.2***	***18.0***

Source: Company, Centrum Research Estimates

Q3FY14 results - lower than estimates, but improvement in asset quality was +ve

GIC Housing's Q3FY14 results were lower than our estimates as higher than expected increase in interest costs dragged down NII growth and the overall bottom-line. NII grew 26% yoy led by 16% yoy growth in loan portfolio. Growth in disbursements, though lower at 5% yoy for the quarter for 9mFY14, was higher at 21% yoy. Spreads (calc) at 2.4% declined 11bps. Asset quality saw improvement with GNPA (calc) for the quarter at 1.81% vis-à-vis 1.87% in Q2FY14 and 2.01% for Q3FY13. Select pockets of North India have had NPA related issues in the past and the same is being progressively addressed through collection centres, stringent recovery process etc.

Rs mn	Q3FY14	Q3FY13	YoY (%)	Q2FY14	QoQ (%)	Q3FY14E	Var (%)
Net Interest Income	453	360	*26.0*	455	*(0.4)*	471	*(3.8)*
Other Income	43	88	*(51.1)*	60	*(27.9)*	76	*(42.8)*
Net Income	**496**	**448**	***10.8***	**515**	***(3.6)***	**546**	*(9.2)*
Operating Profit	381	335	*13.8*	402	*(5.2)*	382	*(0.4)*
Provisions	57	21	*168.7*	66	-	17	*233.8*
PBT	**324**	**314**	***3.3***	**336**	***(3.5)***	**366**	*(11.3)*
Total Tax	88	82	*7.6*	89	*(1.3)*	96	*(9.1)*
Adjusted PAT	**236**	**232**	***1.9***	**247**	***(4.3)***	**269**	**(12.1)**
	Q3FY14	**Q3FY13**	***YoY (%)***	**Q2FY14**	***QoQ (%)***		
GNPA	916	879	*4.2*	916	*0.0*		
GNPA (%)	***1.81***	***2.01***	***(20.1)****	***1.87***	***(5.6)****		
PCR (%)	*100.0*	*100.0*	*0.0*	*100.0*	*0.0*		
Loan Assets	**50,604**	**43,719**	***15.7***	**49,062**	***3.1***		
Disbursements	3,731	3,539	*5.4*	4,032	*(7.5)*		

Yield analysis (%)	Q3FY14	Q3FY13	YoY (bps change)	Q2FY14	QoQ (bps change)
Yield on total assets	*11.9*	*11.3*	*60*	*11.9*	*(1)*
Yield on int earning assets	*12.4*	*12.2*	*13*	*12.3*	*5*
Cost of int bearing liab.	*9.9*	*9.7*	*26*	*9.8*	*16*
Cost of funds	*8.4*	*8.2*	*21*	*8.2*	*15*
Spread	*2.4*	*2.5*	*(12)*	*2.5*	*(11)*
NIM	*3.5*	*3.1*	*39*	*3.6*	*(15)*

*Source: Company, Centrum Research * denotes bps*

Valuation and view

Favourable dynamics and secured nature of lending augurs well for the sector

We continue to be positive on Indian mortgage business and believe that favourable sector dynamics (changing demographics, migration of people from small towns to tier-III / tier-II cities, easy availability of finance) offer ample space for growth. While the current situation has seen intense competition and a pricing war, product offerings (targeting the niche customer segment) have left enough room for HFCs to grow their loan portfolio. Secured lending and improved recovery process have seen NPA related issues recede. Also, the floating nature of loan portfolio has lowered the risk of margin compression in the event of tight liquidity. We believe that as the investment cycle reverses, and banks resort to corporate credit, there will be plenty of room for housing financing companies to grow and price their products well.

- GIC Housing Finance with a) focused approach towards lending (87% are salaried class) b) ability to report spreads at 2.5% on a consistent basis c) contained repayment rate at 18% levels (despite concentration in tier-I / II cities) d) receding asset quality concerns (GNPA at 1.8% vis-à-vis 3.9% in FY10) with a healthy PCR at 100% and e) decent return ratios at 1.9% / 17% (RoA / RoE) make us believe that the stock offers a value proposition.

- Valuations, are also on the lower side at 0.7x, Dec'15E ABV of Rs140 vis-à-vis 2x for Repco Home Finance (Dec'15 consensus ABV of Rs155), a similar sized peer set with marginally higher return ratios. The reasons for lower valuation could be to the minuscule coverage, perception of limited management access and proxy PSU enterprise. Once these issues are addressed, we believe the stock could see re-rating (going by the past trend and as seen in the case of the peer set HFC).

- We have lowered our earnings estimates for FY14E / FY15E by 5% / 6% factoring 17.4% CAGR in loan portfolio over FY13-16E (vis-à-vis 18.3% earlier) while largely retaining our assumptions on spreads and asset quality. The revision in loan growth assumption is more due to the cautious approach of the management following uncertainties in the property market. We continue to believe that GICHG is well positioned to deliver 18% CAGR in loan portfolio and net profit over FY14-16E. This would translate into RoA /RoE at 1.9% / 17% respectively over the same period.

- We have consequently lowered our valuation multiple to 1x and arrived at a revised target price of Rs140 (1x Dec'15E ABV of Rs140). Our positive bias is also based on a healthy 30%+ dividend payout ratio for over 10-years and compares to sub-10% for Repco Home Finance.

- Because of its focus on tier-I and tier-II cities, growth will continue to remain lower vis-à-vis its peers. However this is unlikely to depress margins or asset quality given better ratings / access to various avenues and cautious strategy towards growth. Also, with progressive improvement in asset quality, credit cost concerns are expected to recede in the next 4-6 quarters. This in turn will result in further improvement in return ratios and valuation re-rating.

- **Key risks to our call**: While the largely floating nature of borrowings and the ability to pass on rate hikes will cushion margins, any severe slowdown in individual mortgage or longer than expected time frame towards easing monetary policy will deter growth. NPAs have remained high vis-à-vis peers and with 90% of loans for salaried class any major job losses / job creations will hurt asset quality. Also, the presence in tier-I and tier-II cities and limited sales force will curtail growth potential in relatively un-tapped segments.

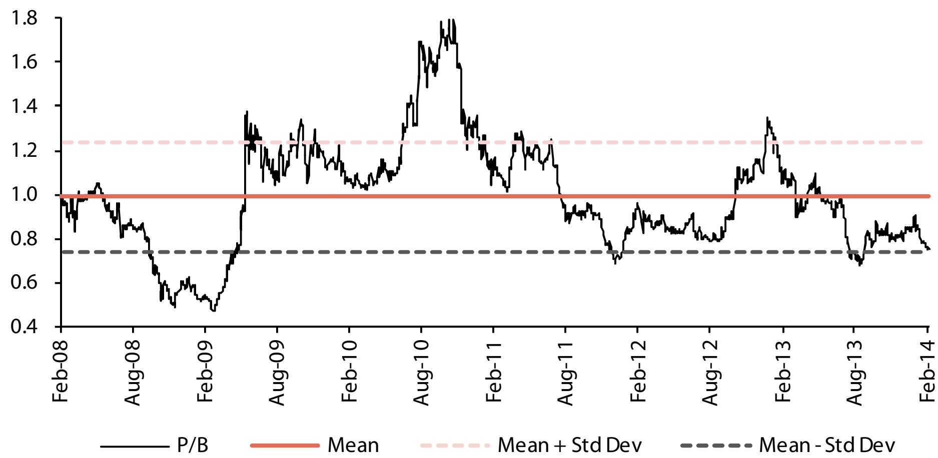
Sensitivity analysis and peer comparison

Exhibit 11: Sensitivity Analysis – impact of change in sanction/disbursement & YoA on FY15 PAT

%		Sanctions / Disbursement				
		-2%	-1%	' Current levels	+1%	+2%
Yield on advances	- 10bps	*(2.9)*	*(1.9)*	*(0.8)*	*0.3*	*1.3*
	- 5bps	*(2.5)*	*(1.5)*	*(0.4)*	*0.7*	*1.7*
	Current levels	*(2.1)*	*(1.1)*	*0.0*	*1.1*	*2.1*
	+ 5bps	*(1.7)*	*(0.7)*	*0.4*	*1.5*	*2.5*
	+ 10bps	*(1.3)*	*(0.3)*	*0.8*	*1.9*	*2.9*

Source: Centrum Research Estimates

Exhibit 12: 1 year forward P/B chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 13: Comparative Valuations

	Mkt Cap (Rs mn)	CAGR (FY13-FY15)			PE (x)			*ROA (%)*			*RoE (%)*			P/BVPS (x)			*Div Yield (%)*		
		NII + Oth inc	PPOP	PAT	FY13	FY14E	FY15E	*FY13*	*FY14E*	*FY15E*	*FY13*	*FY14E*	*FY15E*	FY13	FY14E	FY15E	*FY13*	*FY14E*	*FY15E*
GICHF*	**5,119**	***14.8***	***14.3***	***14.5***	**6.0**	**5.4**	**4.6**	***1.9***	***1.9***	***1.9***	***16.2***	***16.3***	***17.2***	**0.9**	**0.8**	**0.7**	***5.3***	***5.8***	***6.3***
Repco Home	19,798	*39.7*	*45.3*	*31.0*	18.7	18.2	14.4	*2.4*	*2.6*	*2.6*	*17.1*	*16.1*	*17.7*	31.2	2.7	2.4	*0.3*	*0.6*	*1.2*
LICHF	1,02,169	*26.3*	*23.1*	*21.4*	10.0	8.0	6.8	*1.4*	*1.5*	*1.5*	*16.8*	*18.1*	*18.5*	1.6	1.4	1.2	*1.9*	*2.3*	*3.1*
Gruh Finance	47,245	-	*117.4*	*19.1*	32.0	27.5	22.8	*2.9*	*3.0*	*2.8*	*33.3*	*30.2*	*28.8*	9.6	7.6	6.0	*1.0*	*1.0*	*1.8*

*Source: Bloomberg consensus, *Centrum Research Estimates*

Quarterly financials

Exhibit 14: Quarterly Financials

(Rs mn)	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Income statement								
Interest earned	1,191	1,207	1,262	1,306	1,382	1,423	1,485	1,542
Interest expended	831	899	928	947	958	978	1,030	1,089
Net interest income	**361**	**308**	**334**	**360**	**424**	**444**	**455**	**453**
Non-interest income	0	112	103	88	79	56	60	43
Total income	**361**	**419**	**437**	**448**	**502**	**500**	**515**	**496**
Operating expenses	85	77	78	107	123	105	108	110
PPOP	**273**	**339**	**353**	**335**	**373**	**391**	**402**	**381**
Provisions	0	43	43	21	163	60	66	57
PBT	**273**	**296**	**311**	**314**	**210**	**331**	**336**	**324**
Tax	73	76	79	82	44	88	89	88
PAT	**200**	**220**	**232**	**232**	**167**	**243**	**247**	**236**
Ratios								
Growth YoY (%)								
NII	*22.8*	*(4.9)*	*16.9*	*15.4*	*17.4*	*44.4*	*36.3*	*26.0*
Opex	*61.9*	*(7.8)*	*(53.1)*	*39.9*	*45.2*	*35.8*	*38.5*	*3.0*
PPOP	*14.4*	*42.4*	*202.1*	*43.6*	*36.5*	*15.3*	*13.6*	*13.8*
PAT	*20.5*	*25.4*	*148.9*	*90.2*	*(16.7)*	*10.4*	*6.7*	*1.9*
Loans						*17.1*	*17.3*	*15.7*
Borrowings						*10.6*	*12.6*	*11.4*
Margins (%)								
Yield on assets	*12.4*	*12.4*	*12.2*	*12.3*	*12.2*	*12.4*	*12.3*	*12.3*
Cost of funds	*9.5*	*9.5*	*9.9*	*9.8*	*9.7*	*9.6*	*9.7*	*9.8*
Spread	*2.9*	*2.9*	*2.3*	*2.4*	*2.5*	*2.8*	*2.6*	*2.5*
NIM	*3.5*	*3.5*	*2.8*	*3.0*	*3.1*	*3.6*	*3.7*	*3.6*
Key drivers (%)								
Cost-income	*23.6*	*18.4*	*17.9*	*23.9*	*24.6*	*21.0*	*21.0*	*22.2*
GNPA	*0.0*	*2.3*	*2.1*	*2.0*	*1.9*	*2.0*	*1.9*	*1.8*
RoA	*1.9*	*1.9*	*2.0*	*2.1*	*2.0*	*1.4*	*2.0*	*2.0*
RoE	*15.9*	*15.9*	*17.3*	*17.4*	*16.8*	*11.9*	*17.3*	*16.8*

Source: Company, Centrum Research

Financials

Exhibit 15: Income Statement

Y/E March (Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Interest Income	4,234	5,375	6,168	7,186	8,498
Interest Expense	3,113	3,732	4,337	5,032	5,952
Net Interest Income	**1,122**	**1,642**	**1,831**	**2,153**	**2,547**
Non-Interest Income	**160**	**164**	**187**	**227**	**267**
Fee & Other Income	122	147	170	210	250
Gains / (Losses) on Securities	38	17	17	17	17
Total Net Income	**1,282**	**1,807**	**2,018**	**2,380**	**2,814**
Total Operating Expenses	**300**	**407**	**463**	**553**	**660**
Employee Expenses	292	386	438	523	624
Other Operating Expenses	8	21	25	30	36
Pre-provision Profit	**981**	**1,400**	**1,555**	**1,827**	**2,153**
Provisions & Contingencies	**193**	**269**	**290**	**341**	**405**
NPA Provisions	193	269	290	341	405
Other Provisons	-	-	-	-	-
Profit Before Tax	**789**	**1,130**	**1,266**	**1,486**	**1,749**
Taxes	261	371	316	371	437
Profit after tax	**590**	**850**	**949**	**1,114**	**1,311**
Exceptional items	-	-	-	-	-
Adj Net Profit	**590**	**850**	**949**	**1,114**	**1,311**

Source: Company, Centrum Research Estimates

Exhibit 16: Balance Sheet

Y/E March (Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Current assets	3,546	1,442	1,570	1,710	1,864
Loans & Advances	38,716	45,392	52,660	62,032	73,613
Investments	104	99	99	99	99
Total Int Earning Assets	**42,365**	**46,933**	**54,328**	**63,841**	**75,576**
Fixed Assets	43	64	60	55	49
Total Assets	**42,408**	**46,997**	**54,388**	**63,896**	**75,625**
Borrowings	**35,949**	**39,728**	**45,987**	**54,434**	**64,886**
- Secured	28,310	30,020	39,089	46,269	55,153
- Unsecured	7,639	9,708	6,898	8,165	9,733
Interest Bearing Liabilities	**35,949**	**39,728**	**45,987**	**54,434**	**64,886**
Other non int bearing Liabilities	1,487	1,762	2,292	2,616	2,991
Total Liabilities	**37,436**	**41,490**	**48,279**	**57,050**	**67,877**
Equity	4,972	5,507	6,110	6,846	7,748
Total Liabilities	**42,408**	**46,997**	**54,388**	**63,896**	**75,625**

Source: Company, Centrum Research Estimates

Exhibit 17: DuPont analysis

(% of avg assets)	FY12	FY13	FY14E	FY15E	FY16E
Yield on assets	*10.7*	*12.0*	*12.2*	*12.1*	*12.2*
Cost of funds	*7.8*	*8.3*	*8.6*	*8.5*	*8.5*
Spreads	*2.3*	*2.9*	*2.5*	*2.5*	*2.6*
NIM	***2.8***	***3.7***	***3.6***	***3.6***	***3.7***
Other income	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*
Total income	***3.2***	***4.0***	***4.0***	***4.0***	***4.0***
Operating expenses	*0.7*	*0.9*	*0.9*	*0.9*	*0.9*
Provisions	*0.5*	*0.60*	*0.57*	*0.58*	*0.58*
PBT	***2.0***	***2.5***	***2.5***	***2.5***	***2.5***
Tax	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*
RoA	***1.5***	***1.9***	***1.9***	***1.9***	***1.9***
Leverage	*8.5*	*8.5*	*8.9*	*9.3*	*9.8*
RoE	***12.3***	***16.2***	***16.3***	***17.2***	***18.0***

Source: Company, Centrum Research Estimates

Exhibit 18: Key Ratios

Y/E March	FY12	FY13	FY14E	FY15E	FY16E
Growth Ratios (%)					
Loans	*13.3*	*17.2*	*16.0*	*17.8*	*18.7*
Borrowings	*16.5*	*10.5*	*15.8*	*18.4*	*19.2*
NII	*0.4*	*46.4*	*11.5*	*17.6*	*18.3*
Opex	*3.2*	*35.5*	*13.8*	*19.5*	*19.3*
PPOP	*2.3*	*42.6*	*11.1*	*17.5*	*17.9*
Provisions	*(50.2)*	*39.8*	*7.5*	*17.8*	*18.7*
PAT	*(48.1)*	*44.0*	*11.6*	*17.4*	*17.7*
Operating Ratios (%)					
Yield on funds	*10.7*	*12.0*	*12.2*	*12.1*	*12.2*
Cost of funds	*7.8*	*8.3*	*8.6*	*8.5*	*8.5*
Spread	*2.3*	*2.9*	*2.5*	*2.5*	*2.6*
NIM	*2.8*	*3.7*	*3.6*	*3.6*	*3.7*
Non-int inc / Total income	*12.5*	*9.1*	*9.3*	*9.5*	*9.5*
Fee to disbursement	*1.2*	*1.1*	*1.1*	*1.1*	*1.1*
Cost/Income	*23.4*	*22.5*	*22.9*	*23.2*	*23.5*
Opex/ Avg assets	*0.7*	*0.9*	*0.9*	*0.9*	*0.9*
Provisioning cost (bps)	*48.6*	*60.2*	*57.1*	*57.7*	*58.0*
Effective tax rate (%)	*33.1*	*32.8*	*25.0*	*25.0*	*25.0*
RoA	*1.5*	*1.9*	*1.9*	*1.9*	*1.9*
RoE	*12.3*	*16.2*	*16.3*	*17.2*	*18.0*
Credit Quality Ratios (%)					
Gross NPA	*2.2*	*2.0*	*1.9*	*1.7*	*1.6*
Net NPA	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Dividend details					
DPS (Rs)	4.5	5.0	5.5	6.0	6.5
Dividend Payout (%)	*47.7*	*37.0*	*36.5*	*33.9*	*31.2*
Per Share (Rs)					
BVPS	92.3	102.2	113.4	127.1	143.8
Adjusted BVPS	92.3	102.2	113.4	127.1	143.8
EPS - wt avg	11.0	15.8	17.6	20.7	24.3
EPS - fully diluted	11.0	15.8	17.6	20.7	24.3
Valuations Ratios					
Price/BV (x)	1.0	0.9	0.8	0.7	0.7
Price/Adj. BV (x)	1.0	0.9	0.8	0.7	0.7
P/E (x)	8.7	6.0	5.4	4.6	3.9
Dividend Yield (%)	*4.7*	*5.3*	*5.8*	*6.3*	*6.8*

Source: Company, Centrum Research Estimates

Appendix A

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