

Nitin Aggarwal, CFA
+91 22 4031 3421
nitin.aggarwal@antiquelimited.com

Renish Patel
+91 22 4031 3426
renish.patel@antiquelimited.com

MANAGEMENT MEET UPDATE

TransUnion CIBIL

Retail underwriting remain strong; growth trajectory to sustain

A briefing session was organized by the management team of TransUnion CIBIL - country's largest credit bureau with data on 200mn adults and 525mn loan accounts, to get their perspective on underwriting trends for the industry. We discussed the asset quality performance in different lending segments - including both Retail and Commercial and the outlook ahead. Following are the key takeaways from our meeting -

Retail underwriting remains healthy; household leverage is well under control

Despite steady y-o-y growth in retail segment, the underwriting trend remains good and there seems to be no signs of imminent risk. Most lenders have learnt their lessons from the last meltdown in retail and have taken steps to improve their underwriting with retail lending now being completely process driven and non-discretionary. The bureau didn't express much concern on LAP segment as the proportion on a systemic wise basis is small. Household leverage is also significantly lower than what it was in 2008 which will likely support healthy growth trends.

New account additions increasing at steady rate

The strong trend in retail loan growth is aided by healthy growth in new account additions for both private players and NBFCs thus pointing to healthy granularity of the underlying retail loan growth. Even in microfinance space the underwriting trend is good with usage of TransUnion CIBIL/Aadhar helping minimize cases of duplicate lending. Moreover, RBI policy limits the degree of indebtedness that a MFI borrower can have thus ensuring healthy debt levels.

Recovery trends improving; private banks gaining market share as they are expanding into newer geographies

Trend in personal loan recovery has improved significantly with increasing use of CIBIL and rising proportion of collateralized loans. Private banks are gaining market share across products like Auto, Home, LAP segments led by their improved distribution spread across semi urban and metro regions.

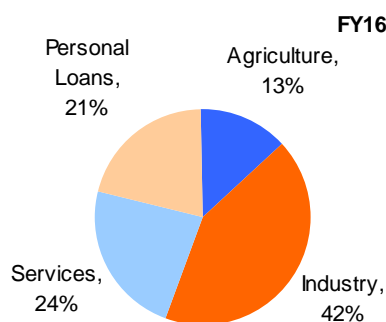
Remain cautious on delinquencies in corporate segment

TransUnion CIBIL remains cautious on the asset quality outlook in corporate segment. The bureau believes that underwriting standards here need to be tightened further while poor operating metrics of several companies will continue to put pressure on the asset quality of the lenders. As per TransUnion CIBIL it is difficult to differentiate between PSU and Private bank on the basis of their underwriting as small PSU banks are also doing quality lending. Large Corporate underwriting can benefit from TransUnion CIBIL's commercial data.

Sector outlook

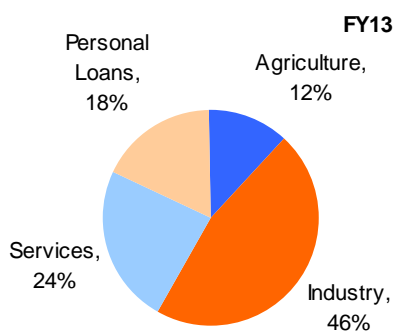
We came back with positive impression on the strong growth in retail lending and believe that the segment will remain the key focus area for both private and PSU banks in the near term. We thus expect retail lenders (HDFCB, KMB, IIB etc.) to deliver strong growth trends and further gain market share. There is no change in asset quality view on any sub-segment. However the unsecured loan portfolio has shown rapid growth and could have implications on credit cost for select banks (HDFCB, ICICI). We maintain our positive bias on retail oriented banks though believe that few corporate banks, particularly SBIN, are in the last leg of asset quality down cycle and will report stronger earnings traction over FY17-18E. **We maintain HDFCB/KMB/SBI as our top BUY ideas in the sector.**

The share of personal loans has increased to 21%...



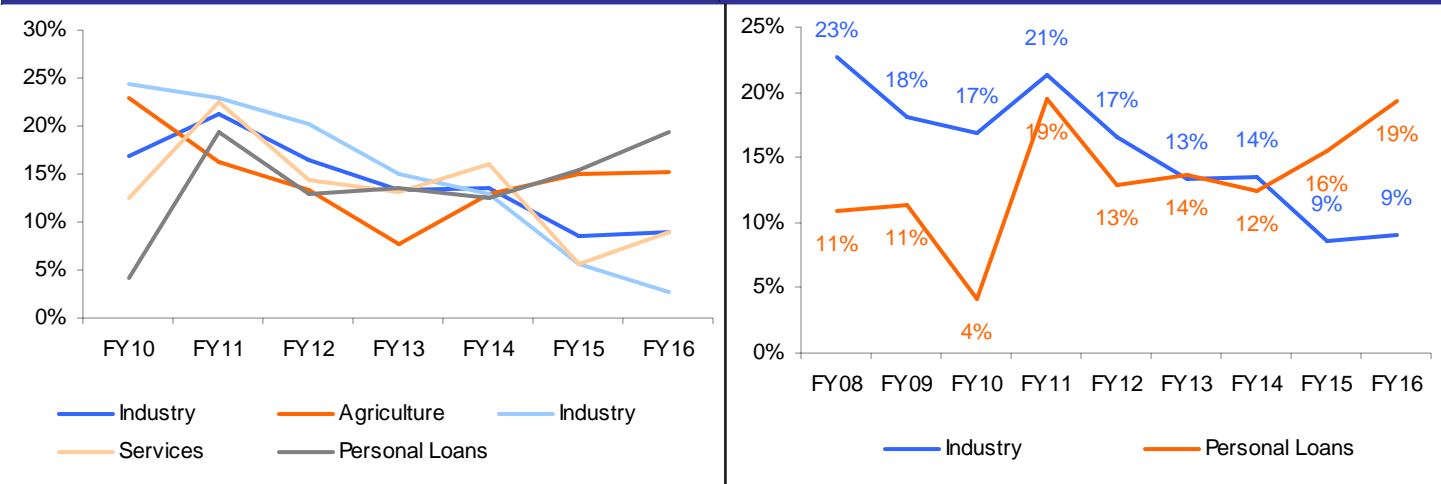
Source: RBI, Antique

... from 18% in FY13



Source: RBI, Antique

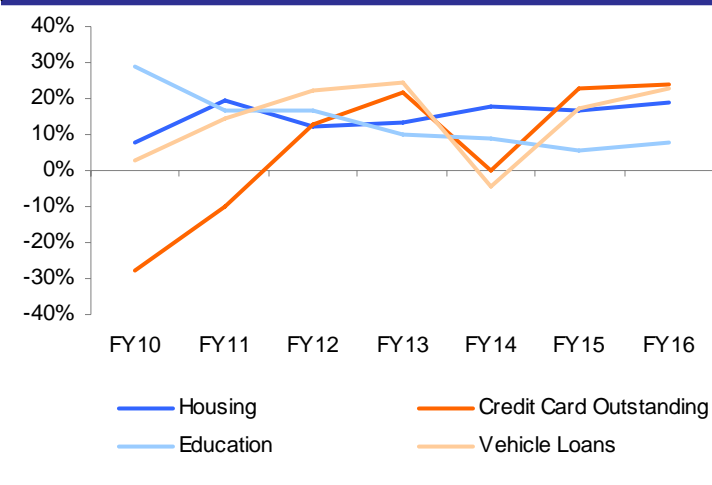
Retail loan growth outpaced system loan growth post FY14... ..as it stood at 19% in FY16 vs 9% industry growth



Source: RBI, Antique

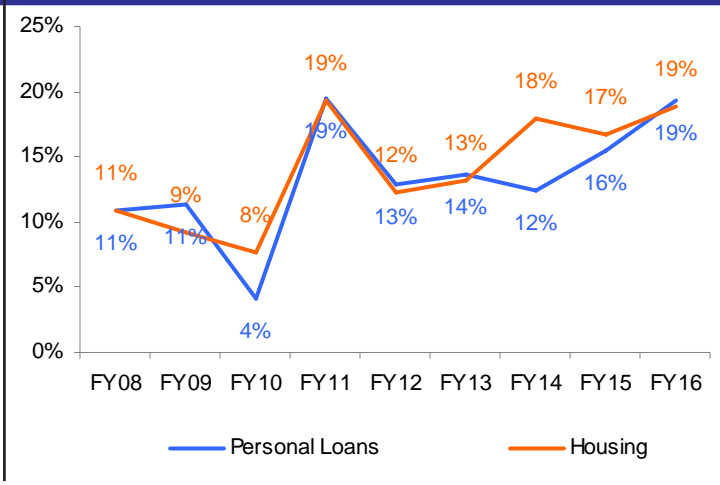
Source: RBI, Antique

Credit card and auto loan has been the key driver of overall retail growth



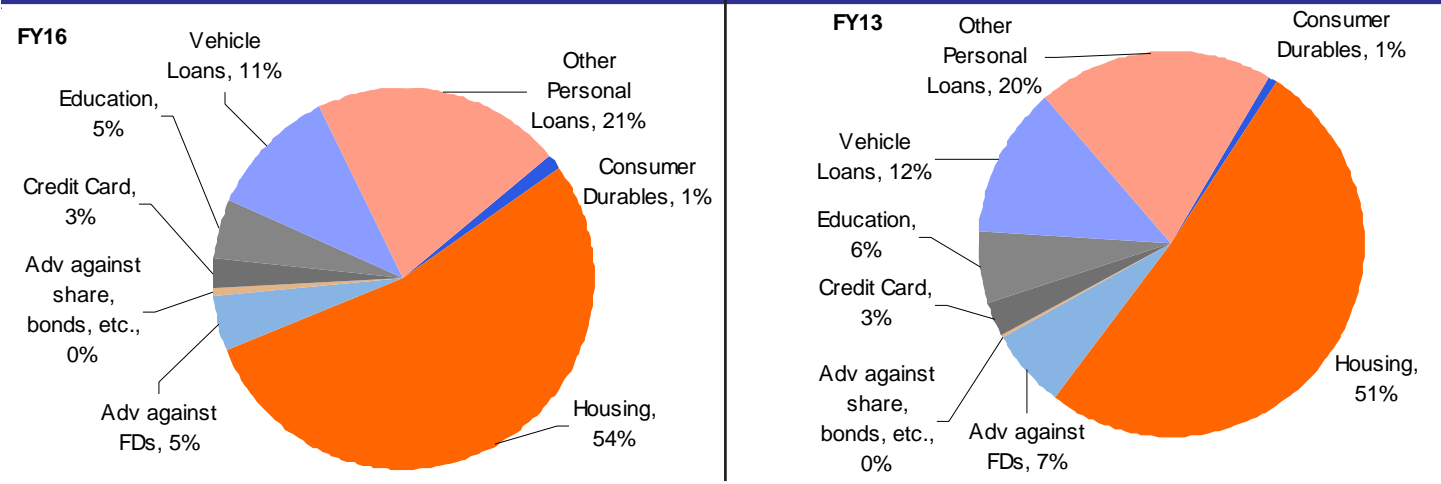
Source: RBI, Antique

Housing loan growth also remian steady at 19% YoY



Source: RBI, Antique

Retail loan mix - Housing loan contributes 54% to the total personal loan segment, improvement of 300bps over FY13-16



Source: RBI, Antique

Source: RBI, Antique

Important Disclaimer:

This report has been prepared by Antique Stock Broking Limited (hereinafter referred to as ASBL) to provide information about the company(ies) and/or sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies).

ASBL is a Stock Broker and Depository Participant registered with and regulated by Securities & Exchange Board of India.

ASBL and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group.

This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and ASBL is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

We and our affiliates have investment banking and other business relationships with some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that ASBL and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business. The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on the profitability of ASBL which may include earnings from investment banking and other business.

ASBL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, ASBL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. ASBL and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (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; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of ASBL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition ASBL has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt ASBL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold ASBL or any of its affiliates or employees responsible for any such misuse and further agrees to hold ASBL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent ASBL's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, ASBL and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent ASBL and/or its affiliates from doing so. ASBL or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ASBL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Antique Stock Broking Limited ("ASBL") further discloses that ASBL and Inga Capital Private Limited (Investment Banking Company), one of our associate companies-

- Has not received compensation from YES Bank Limited within the past 12 months;
- Was involved in the proposed QIP of YES Bank Limited which was eventually deferred within the past 12 months;
- Has not received compensation for investment banking or merchant banking from YES Bank Limited in the past 12 months;
- Has not received any compensation for products or services other investment banking or merchant banking or broking services from YES Bank Limited in the past 12 months;
- Has not received any compensation or other benefits from YES Bank Limited or third party in connection with the research report. There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of ASBL research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement Companies where there is interest

- Analyst ownership of the stock - No
- Served as an officer, director or employee - No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASBL & its group companies to registration or licensing requirements within such jurisdictions.

For U.S. persons only: This research report is a product of Antique Stock Broking Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by Antique Stock Broking Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Antique Stock Broking Limited has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

SEBI Registration Number: INH000001089 as per SEBI (Research Analysts) Regulations, 2014.

CIN: U67120MH1994PLC079444

**Antique Stock Broking Limited**

20th Floor, A Wing, Naman Midtown
Senapati Bapat Marg, Elphinstone (West)
Mumbai 400013

Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445
www.antiquelimited.com