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Banking

Q1FY23 result review

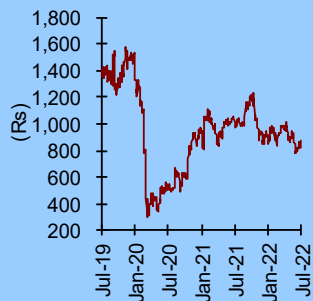
Target price: Rs1,420

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	16.5	16.5	16.5
Institutional investors	67.9	68.2	66.8
MFs and others	12.1	13.5	12.2
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	8.0	8.2	8.8
FII	47.8	46.5	45.8
Others	15.6	15.3	16.7

Source: BSE

Price chart



Research Analysts:

Kunal Shah

kunal.shah@icicisecurities.com
+91 22 6807 7572

Renish Bhuva

renish.bhuva@icicisecurities.com
+91 22 6807 7465

Chintan Shah

chintan.shah@icicisecurities.com
+91 22 6807 7658

INDIA



IndusInd Bank

BUY
Maintain

Rs879

Demonstrated RoA of 1.7%, RoE of 13.4% reinforcing our (above consensus) confidence

IndusInd Bank (IIB) demonstrated 1.7% RoA and 13.4% RoE in Q1FY23, thereby, reaffirming our (above the consensus) confidence of it being able to deliver >5% PPOP/loans, 1.7%/1.9% RoAs and 15%/16% RoEs by FY23E/FY24E, respectively. Maintain BUY with an unchanged target price of Rs1,420 (1.8x FY24E book). Key risks: 1) Lower-than-estimated growth, 2) credit cost not normalising soon.

What surprised positively:

- Overall operating profit momentum (up 10% YoY) led by NII growth (of 16% YoY);
- Stable NIMs at 4.21% (as spike in cost of deposits by 19bps was offset by borrowing repricing benefit and 10bps rise in lending yields);
- True to our hypothesis, there was no knock on treasury given it has ~25% AFS portfolio and marginal corporate investment book;
- General banking fee (up 78% YoY/60% QoQ), processing fee (up 51% YoY / flat QoQ), distribution income (up 63% YoY / 8% QoQ) led core fee income growth of 47% YoY / 9% QoQ;
- Growth was not only robust but broad-based, too.

What was not encouraging:

- Slippages at Rs22.5bn (3.8% run-rate) with >40% flowing from restructured pool as 15% of restructured pool turned delinquent in Q1;
- Despite utilising contingency buffer of Rs3.25bn, credit cost settled at 2% (higher than our estimate)

What to expect for FY23:

- Now carrying provisioning of 3.38% against stress pool (NPA + restructuring + SMA-1/2 + net SRs) of 5.6% suggests credit cost trajectory should normalise to <1.7%.
- This will be partially offset by some pressure on NIMs given the dominance of fixed-rate portfolio and focus on retail TD mobilisation. Nonetheless, domain expertise in niche lending segments provides some flexibility to pass on the rising funding cost pressure.
- Scale up of retail, investment in franchise expansion and technology initiatives will drive up cost structure.
- Revival in MFI and some vehicle financing products, and encouraging growth in corporate lending, will drive loan growth towards 2-year target of 15-18%.

Market Cap	Rs682bn/US\$8.5bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	INBK.BO / IIB IN	NII (Rs bn)	135	150	170	194
Shares Outstanding (mn)	775.1	Net Profit (Rs bn)	29	48	74	91
52-week Range (Rs)	1229/778	EPS (Rs)	37.9	62.0	95.2	117.4
Free Float (%)	83.5	% Change YoY	-40.6	63.7	53.6	23.3
FII (%)	45.8	P/E (x)	23.2	14.2	9.2	7.5
Daily Volume (US\$'000)	42,234	P/BV (x)	1.6	1.4	1.3	1.1
Absolute Return 3m (%)	(9.6)	P/ABV (x)	1.6	1.5	1.3	1.1
Absolute Return 12m (%)	(10.0)	GNPA (%)	2.7	2.4	2.1	1.9
Sensex Return 3m (%)	(2.2)	RoA (%)	0.9	1.3	1.7	1.9
Sensex Return 12m (%)	7.4	RoE (%)	7.6	10.6	14.5	15.7

Please refer to important disclosures at the end of this report

- ▶ **Slippages elevated at 3.8% with >40% flowing from restructured pool:** Slippages at Rs22.5bn were elevated with annualised run-rate of 3.8%. Of the slippages, >73% were from consumer financing segment and Rs6bn from corporate book (primarily dominated by a couple of accounts - one was known stress in retail industry and other was technical getting upgraded in Q1 itself). More so, >40% of slippages (Rs9.2bn) flowed from restructured pool including Rs3.3bn from corporate restructured pool and Rs5.9bn from retail. This translated to 15% of the restructured pool as of Mar'22 becoming delinquent.
 Within retail segment, MFI dominated incremental stress with Rs5.5bn of slippages (vs Rs8.2bn QoQ), followed by vehicle financing stress at Rs4.5bn (vs Rs5.5bn QoQ). This was partially offset by upgrades of Rs3.63bn, recoveries of Rs2.4bn and write-offs of Rs7.8bn (including two corporate accounts in media and real estate industry with exposure of Rs4.5bn). GNPA's, thereby, have risen to 2.35% (from 2.27% in Q4FY22). Of the Rs4.4bn net slippages in consumer banking, Rs2.5bn flowed from MFI segment and Rs1.1bn from CV/CECV segment. With uptick in collection efficiency, lesser flow through from restructured pool, we expect incremental stress to moderate and GNPA's, too, should settle lower.
- ▶ **Utilised Rs3.2bn of contingency buffer; credit cost settled at 2%:** Following elevated slippages, IIB's credit cost too came in at 2% or Rs12.5bn though better than FY22 credit cost (on average advances) of >2.9%. On a net basis, in Q1FY23, it has created Rs2.85bn of specific loan loss provisions after having utilised Rs3.25bn of contingency provisioning. Outside PCR, cumulative non-PCR contingency provisioning, thereby, reduced to Rs30bn (vs Rs33.2bn). Loan-related provisions (including specific, floating, counter-cyclical, contingent and standard asset provisions) are equivalent to 3.38% (Rs83.7bn) of loans or 141% of GNPA's. Management expected credit cost to moderate to 120-150bps through FY23. We now build in credit cost of 1.8%/1.5% for FY23E/FY24E, respectively.
- ▶ **Restructured advances came off 50bps QoQ to 2.1%:** Restructured pool was down to Rs52bn (from Rs61.7bn/Rs75.4bn in Q4/Q3) as Rs9.2bn slipped into NPA (including Rs2.8bn of MFI loans, Rs2.5bn of vehicle loans and Rs3.3bn of corporate account). Of the outstanding restructured pool, vehicle finance constitutes Rs31bn (vs Rs32.98bn QoQ), microfinance Rs6.64bn (vs Rs9.95bn) and corporate Rs5.6bn (Rs9.61bn). Management indicated that further Rs1bn of MFI loans and 15-20% of restructured vehicle loans can turn delinquent. It will look to utilise Rs10bn from contingency provisions towards forward flow from restructured pool and carry forward Rs20bn for future contingencies.
- ▶ **MFI business disrupted in April; disbursements resumed in May:** Disbursements in MFI segment were disrupted in April due to revised RBI master direction requiring assessment on household income. It made necessary changes in the processes and resumed disbursements in May. However, MFI loan portfolio declined 4% QoQ to Rs294bn. Member acquisition in NTB category was lower during the quarter that led to increase in ticket size.
- ▶ **MFI business asset quality performance:** MFI loans of Rs5.6bn (including Rs2.8bn from restructured pool) slipped in Q1FY23 over and above the Rs8.2bn / Rs13.4bn in Q4/Q3FY22. Net of recoveries and upgrades, slippages were at Rs2.55bn in Q1FY23 (vs Rs25.5bn for FY22). Portfolio in 30-90dpd bucket has reduced further QoQ to 2.2% (from 2.6%/5% in Q4/Q3FY22). MFI restructured book stands at Rs6.64bn (vs Rs9.95bn). After having recognised and provided for stress in MFI portfolio, management expects BAU in H1FY23. Credit cost in MFI business for FY23 is expected to be 2.0-2.5%. Collection efficiency in Mar'21 on non-restructured standard book was 99.1% and that on incremental lending in past one year was 99.2%.

- ▶ **Advance growth was not only robust but broad-based as well; improves visibility towards targeted 2-year target of 15-18% CAGR:** IIB registered advance growth of 4% QoQ after 5% / 3% / 5% QoQ growth in Q4/Q3/Q2. Consequently, YoY growth on a lower base improved to 18.0%. Encouragingly, growth was broad-based across retail as well as corporate segments. Within retail segment, home loans/PL/BL led with 52% YoY/9.5% QoQ growth, followed by credit card portfolio growing 44% YoY/17% QoQ and CV/UV/car loans too gathered momentum. With respect to corporate segment, growth was primarily led by small and mid-corporates. Only MFI and 2-wheeler segments witnessed sequential decline.

IIB has charted a 2-year loan growth target of 15-18%. Disbursements reaching pre-covid levels in most retail products, revival in MFI and encouraging growth in corporate lending, will drive overall loan growth. Given the accelerated deposit traction, surplus liquidity and tier-1 capital at >15%, IIB is equipped to register growth of 16% / 18% in FY23E / FY24E, respectively.

- ▶ **True to our hypothesis, no treasury knock:** We have been highlighting that IIB will be amongst the banks to have least yield rise impact as it has ~25% AFS portfolio and very marginal corporate investment book. True to our hypothesis, in treasury book it reported profit of Rs1.46bn (compared to Rs2.6bn in Q4) against expectations of loss for the entire sector. Way back in Jan'22, it had taken conscious decision of not increasing exposure to non-SLR portfolio and was unwinding duration bonds.

- ▶ **Core fee income up 9% QoQ:** Non-interest income was flat QoQ and up 12% YoY. Core fee income on a low base grew 47% YoY/9% QoQ. General banking fee (up 78% YoY/60% QoQ), processing fee (up 51% YoY / flat QoQ), distribution income (up 63% YoY / 8% QoQ) led core fee income growth. PSLC income of Rs500-600mn, too, aided fee income growth. As IIB accelerates retail lending and accretes value proposition in its domain of expertise, fee income growth is expected to outpace asset growth over the next 2 years.

- ▶ **Margins stayed put at 4.21% due to benefit of borrowing repricing:** During the quarter, with active liability management, repricing of high-cost borrowings more than offset 19bps QoQ spike in the cost of deposits. This contained rise in the cost of funds by mere 6bps QoQ. In comparison, asset yield, too, improved 10bps QoQ to 8.38%, leading to stable QoQ NIMs at 4.21%. Yields in consumer banking was up 15bps QoQ due to portfolio mix change and increase in lending rates. Net interest income, thereby, came marginally higher than expectations at Rs412bn, up 15.8% YoY / 3.5% QoQ (compared to 12.4% / 11.4% / 11.6% / 8% / 9% YoY growth in Q4FY22 / Q3FY22 / Q2FY22 / Q1FY22 / Q4FY21, respectively).

IIB has aligned its balance sheet towards a rising interest rate scenario and niche lending segments provides some flexibility to pass on the rising funding cost pressure. Nonetheless, with ~50% of its advances being fixed rate in nature, benefit of rising interest rates will be reflected with a lag. Management has guided for margins in the range of 4.1-4.25%.

- ▶ **Deposits growth steady, CD ratio expands:** Deposit momentum was steady at 3% QoQ growth and YoY growth at 13% as it acquired 425k new liability customers through consumer banking. Bank will continue to maintain 150-175bps premium in deposit rates to industry leaders. Proportion of retail and small business deposits as proportion of overall deposit sustained at 40.9% and CASA ratio also improved to 43.2% vs 42.8% QoQ and 42.1% YoY. Bank expects to narrow the gap between deposit and loan growth, and the C/D ratio to expand to 88-92% over the next 12-18 months (from 82% in Q1FY23). Incremental C/D ratio for the quarter also stood at 95%.

- ▶ **Setting its priorities right for FY23:** The expected outcome of fifth 3-year planning cycle strategy will be 15-18% asset growth, >5% operating profit as a percentage of loans and RoAs at >1.5%. Overall, IIB seems all geared for execution of its Planning Cycle-5 strategy.
- ▶ **Embarking on Digital 2.0 strategy:** Keeping focus on transforming the existing business lines, building new digital business models and enriching digital proposition across the ecosystem, IIB has embarked on its Digital 2.0 strategy. It is creating future-ready tech stacks and platforms by leveraging cloud native, micro services based data-driven framework. Indus EasyCredit for individuals, Indus EasyCredit for businesses and Indus Merchant Solution are some of its platforms.

With a bunch of digitisation initiatives, digital sourcing forms the major chunk of overall sourcing for the bank. For Q1FY22, 200k+ clients on-boarded using video KYC, 96% of deposits were opened digitally, ditto with 90% of cards, 54% of personal loans, 70% of CAs, 98% of mutual funds and 100% of life insurance.
- ▶ **Asset quality in gems/jewellery not impacted despite geo-political concerns:** Russia accounts for ~30% of global diamond output and is a major supplier to India. Shortage of diamond import impacted India's export of cut and polished diamonds and turnover of many entities was hit. This resulted in lower working capital financing requirement. As a result, gems and jewellery portfolio was up 1% QoQ. Despite disruption, no client fell into the SMA category and hence, there are no concerns on asset quality (for gems and jewellery portfolio) due to disruption in supply chain caused by the Russia-Ukraine conflict.

Table 1: Q1FY23 result review*(Rs mn, year ending March 31)*

Particulars	Q1FY23	Q1FY22	% Change		
			YoY	QoQ	
Net Interest Income	41,253	35,637	15.8	39,852	3.5
% Growth	15.8	7.7		5.1	
Total Net Income	60,568	52,871	14.6	58,883	2.9
% Growth	14.6	9.5		10.8	
Less: Operating Expenses	(26,261)	(21,663)	21.2	(25,088)	4.7
Pre-provision operating profit	34,307	31,208	9.9	33,795	1.5
Total Provision	12,510	17,793	(29.7)	14,616	(14.4)
PBT	21,797	13,415	62.5	19,179	13.7
Less: taxes	(5,487)	(3,254)	68.6	(5,174)	6.1
PAT	16,310	10,161	60.5	14,005	16.5
% Growth	60.5	99.1		51.2	
Balance sheet (Rs mn)					
Advances	24,79,600	21,07,270	17.7	23,90,515	3.7
Deposits	30,27,190	26,72,330	13.3	29,33,495	3.2
Asset quality					
Gross NPL	59,329	61,858	(4.1)	55,172	7.5
Net NPL	16,612	17,596	(5.6)	15,298	8.6
Gross NPL ratio (Change bps)	2.35	2.88	(53)	2.27	8
Net NPL ratio (Change bps)	0.67	0.84	(17)	0.64	3
Credit cost (Change bps)	2.1	3.4	(131)	2.5	(45)
Coverage ratio (Change bps)	72	72	45	72	(27)
Business ratio					
RoA	1.6	1.1	50	1.4	19
RoE	13.4	9.2	412	11.8	151
CASA	43.1	42.0	107	42.7	39
Credit / Deposit Ratio	81.9	78.9	306	81.5	42
Cost-Income ratio	43.4	41.0	238	42.6	75
Earning ratios					
Yield on advances	11.39	11.75	(36)	11.29	10
Cost of deposits	4.79	4.97	(18)	4.60	19
NIM	4.21	4.06	15	4.20	1

Source: Company data

Table 2: Slippages elevated at 3.8% with >40% flowing from restructured pool

Movement of GNPA (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Opening GNPA	61,590	57,950	61,858	62,450	57,790	55,170
Additions	38,290	27,620	26,580	25,980	20,880	22,500
Deductions	41,930	23,720	25,980	30,640	23,500	18,340
Closing Balance	57,950	61,850	62,458	57,790	55,170	59,330

Source: Company data

Table 3: GNPA's inch up QoQ for most segments in consumer banking

GNPA (%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY Chg (bps)	QoQ Chg (bps)
CV	3.00	2.93	2.62	2.38	1.72	1.98	(95)	26
Utility Vehicle	1.34	1.40	0.91	0.74	0.42	0.58	(82)	16
Construction Equipment	1.18	1.47	1.24	1.43	1.10	1.64	17	54
Small CV	2.88	7.62	4.74	3.61	2.11	2.14	(548)	3
TW	6.73	9.78	9.23	9.28	9.15	7.89	(189)	(126)
Cars	1.31	1.82	1.15	1.01	0.65	0.77	(105)	12
LAP/BBG	3.36	3.34	3.89	3.43	3.07	3.48	14	41
Cards	1.58	4.37	5.05	4.58	3.31	2.25	(212)	(106)
Tractor	1.17	1.28	1.42	1.40	1.50	1.76	48	26
HL / PL/ Others	2.84	2.75	2.56	2.16	1.82	1.73	(102)	(9)
MFI	1.49	1.69	3.01	3.21	2.45	3.38	169	93
Total Consumer Loan Book	2.43	2.85	3.02	2.79	2.27	2.54	(31)	27
Total Loan Book	2.67	2.88	2.77	2.48	2.27	2.35	(53)	8

Source: Company data

Table 4: Total provisions at 3.38% of loans, 141% of GNPA's

(Rs bn, year ending March 31)

Provisions	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Change
Specific towards PCR	35.96	37.68	34.41	39.17	42.02	2.85
Floating provisions other than COVID-19	0.70	0.70	0.70	0.70	0.70	-
Counter-cyclical	7.60	6.35	6.35	-	-	-
Standard contingent outside PCR	20.50	31.78	33.28	33.28	30.03	(3.25)
Standard asset prov other than COVID-19	9.69	9.77	10.12	10.47	10.95	0.48
Others	1.50	-	-	-	-	-
Total	75.95	86.28	84.86	83.62	83.70	0.08
PCR	72%	72%	72%	72%	72%	
% of GNPA	123%	138%	144%	152%	141%	
% of loans	3.60%	3.91%	3.71%	3.50%	3.38%	

Source: Company data

Table 5: Advance growth was not only robust but broad-based as well

(Rs mn, year ending March 31)

Loan book	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY %	QoQ %
Consumer Finance								
Business Banking	1,17,720	1,12,230	1,10,310	1,13,140	1,18,920	1,22,030	8.7	2.6
Microfinance	2,63,830	2,63,910	2,81,150	2,74,430	3,06,120	2,94,030	11.4	(3.9)
CV Loans	2,36,000	2,28,530	2,25,980	2,26,180	2,32,090	2,44,150	6.8	5.2
Utility vehicle loans	49,880	49,620	52,140	56,970	61,720	67,970	37.0	10.1
Three wheeler loans(small CV)	34,110	32,710	29,900	30,350	30,440	31,840	(2.7)	4.6
Two wheeler loans / Small CV	56,440	51,150	47,600	47,230	44,680	43,580	(14.8)	(2.5)
Car loans	79,460	77,640	79,890	82,650	83,920	87,890	13.2	4.7
Equipment financing	90,710	88,310	85,780	86,040	87,310	87,900	(0.5)	0.7
Credit Card	45,360	45,120	50,060	53,010	55,200	64,780	43.6	17.4
LAP	90,030	87,610	87,880	86,640	88,170	90,090	2.8	2.2
Home Loans, PL, ETC	85,700	77,880	94,870	97,720	1,08,240	1,18,550	52.2	9.5
Other (Tractors)	66,530	68,490	71,730	76,660	79,070	82,500	20.5	4.3
Total Consumer Finance	12,15,770	11,83,200	12,17,290	12,31,020	12,95,880	13,35,310	12.9	3.0
Corporate Banking								
Large Corporates	4,22,970	4,46,090	5,03,950	5,37,890	6,02,230	6,23,220	39.7	3.5
Mid size Corporates	4,24,240	4,37,540	4,44,670	4,67,140	4,03,220	4,22,100	(3.5)	4.7
Small Corporates	62,970	40,440	42,170	49,780	89,180	98,970	144.7	11.0
Total Corporate Banking	9,10,180	9,24,070	9,90,790	10,54,810	10,94,630	11,44,290	23.8	4.5
Total Advances	21,25,950	21,07,270	22,08,080	22,85,830	23,90,510	24,79,600	17.7	3.7

Source: Company data

Table 6: Core fee income up 9% QoQ*(Rs mn, year ending March 31)*

Core Fee Income (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY %	QoQ %
Trade & remittance	2,190	1,700	2,000	1,880	1,990	1,890	11	(5)
Loan processing fee	3,570	3,390	4,240	3,820	5,040	5,110	51	1
Foreign exchange income	2,690	1,920	2,210	2,280	2,340	2,200	15	(6)
TPP (Distribution fees)	3,990	3,110	3,600	3,880	4,700	5,070	63	8
Investment banking income	640	140	680	940	280	250	79	(11)
General banking fees	2,000	1,880	2,340	2,390	2,090	3,340	78	60
Total	15,080	12,140	15,070	15,190	16,440	17,860	47	9

Source: Company data

Q1FY23 concall takeaways

Opening remarks on economy

- Economic activity momentum picking up sharply
- Prospects of farm sector look better with onset of monsoon and better output
- Deleveraged corporate sector makes India in a better shape globally
- Measures taken by government and RBI to curb inflation will help India curb headwinds
- **While real GDP growth is expected to slow down in FY23, India will still remain fast growing economy**

Guidance remains intact

- **PPoP margins of >5%**
- **Loan growth CAGR of 15-18% over FY22-24E**
- **Credit cost of 120-150bps**

NII and NIMs

- NII up 16% YoY and 4% QoQ
- **Margins were supported by repricing on asset side and active management on liability side**
- Overall yield on loans improved 10bp QoQ
- **Margins are likely to remain in the range of 4.1-4.25%**
- Yields improved 10bps QoQ to 11.39% while cost of funds has risen only 6bps, despite cost of deposits rising 19bps QoQ to 4.79%.
- **Bank will be 150-175bps ahead of market in terms of deposit rates which was initially 200bps**
- As CASA % moves up, cost of deposits will start coming down

Fee income and opex

- Cost to income ratio increased due to lower trading income
- **Trading income was down QoQ and YoY due to rise in g-sec yields during the quarter**
- Did well on treasury and run a very good treasury book. Way back in January onwards, started unwinding duration portfolio and took conscious decision of not increasing exposure to non-SLR portfolio. By April onwards, all duration positions were unwind and switched them to T-bills.
- PSLC income up by Rs500-60mn which has aided higher processing fees
- General banking fees include regular deposit processing fee, PSLC certificate

- Non-interest income was flat QoQ and up 12% YoY. Core fee income on a low base grew 47% YoY.
- Income growth is more important than managing cost
- General banking fee (up 78% YoY/60% QoQ), processing fee (up 51% YoY / flat QoQ), distribution income (up 63% YoY / 8% QoQ) led core fee income growth of 47% YoY / 9% QoQ.
- **Cost to income should remain in the range of 41-43%**

Asset quality

- GNPA's have risen to 2.35% (from 2.27% in Q4FY22)
- **More than 40% of slippages (Rs9.2bn) flowed from restructured pool (Rs3.3bn from corporate restructured and Rs5.9bn from retail restructured).**
- Restructured slippages were from microfinance customers
- No sale to ARC during the quarter and net SR at 72bps vs. 83bps QoQ
- **One corporate account slipped and got upgraded during the quarter**
- **Corporate slippages are likely to normalise between 30-50bps**
- **Expect for one of the retail group, there are no negative surprise in restructured book**
- **Of the Rs4.4bn net slippages in consumer banking segment; Rs2.5bn flowed from MFI segment and Rs1.1bn from CV/CE**
- Restructured advances thereby declined to 2.1% (vs 2.6% in Q4FY22).
- **Two corporate accounts written-off: one media account and another real estate account**
- **Of total contingency buffer of Rs30bn, bank might keep Rs20bn contingency buffer and may utilised Rs10bn towards restructured**

Deposits

- **Deposit momentum continues to be steady at 3% QoQ growth and YoY growth at 13%.**
- CASA ratio improved to 43.1%, up QoQ
- Committed to achieve 45% run-rate in retail deposits as a % of total deposits
- Retail deposits as per LCR up 17% YoY
- TD run-rate at Rs 115k from Rs78k QoQ
- Borrowings form only 10% and almost all are long term in nature
- No foreign currency borrowings outstanding now
- Highest new customer acquisition of 425k through consumer banking
- **Seeing 125k-150k accounts acquisition per month run-rate which should move to 200k run-rate due to branch expansion and from Bharat Finance customers. With various digital initiatives going ahead, this run-rate can also go to 3mn customers per year**
- Rs14.5bn deposits mobilised from MFI customers

Loanbook profile

- **Advance growth saw 4% QoQ growth after 5% / 3% / 5% QoQ growth in Q4/Q3/Q2. YoY growth on a lower base improved to 18.0%.**

- Loan growth of 18-20% CAGR expectations since microfinance and VF are cyclical business which are coming from a downcycle and hence now should ramp-up
- Personal loans were up Rs3-4bn QoQ
- Merchant loans also growing QoQ
- KCC grew 3.5% QoQ
- Growth was broadbased across the retail as well as corporate segments.
- **Plan to launch home loans this quarter**
- **Bank has not taken unsecured book mix in total book to above 30%**
- Standard book has normalised and is increasing QoQ

Vehicle finance (VF) business

- VF business up 4% QoQ
- VF has shown strong disbursements since the past 4 quarters
- Historically Q1 has been a weak quarter. However, Rs 107bn disbursements in Q1 which is higher QoQ.
- Highest disbursements ever achieved in a quarter
- Disbursements were muted in 3W and 2W segment and strong in CV segment
- CE from standard customer
- Slippages at Rs4.5% (stable QoQ)
- **CE remains comfortable and below pre-covid levels**
- Best Q1 disbursements in history
- **Fresh disbursements are at higher rate and overall yield has improved during the quarter.**
- **Gross slippages at Rs 4.5bn vs. Rs 4.53bn QoQ of which Rs 2.35bn from restructured vs. Rs1bn QoQ**

Microfinance

- Rs75.31bn disbursements, highest Q1 disbursements ever
- MFI standard book CE at 99.1%, same QoQ
- CE for new clients post covid 2.0 at 99.2%, similar to pre-covid levels
- **Slippages at Rs2.78bn from Rs7.89bn QoQ from standard customers**
- **Rs2.83bn slippages from restructured book**
- Best Q1 disbursements in history

Gems and Jewellery

- Diamond book up 1% QoQ and 28% YoY
- No client got into SMA category and hence no concerns on asset quality due to disruption in supply chain caused by Russia Ukraine conflict
- **Gems and Jewellery growth would come back once concerns related to inflation, war are done away with and rupee has stabilised**

Corporate

- **Majority of corporate book is floating in nature and bank was able to pass yields**

- Yields improved by 7bp QoQ
- Net slippages at Rs4.1bn which includes group company retail of Rs 2.1bn which turned NPA during the quarter
- Rs18.5bn - Vodafone exposure of which Rs10bn is fund based
- Business momentum always remains strong in small and medium business segment
- Overall, corporate book to see steady growth driven by SME
- A & above stands at 76.5%

Other retail loans

- Up 7% QoQ and 23% YoY
- Seen intense competition in LAP over past few quarters, but now with rising interest rate, underwriting has improved and pricing has improved
- Credit card spends remained strong
- 75.7k credit card customers acquired in June 2022, highest ever

Digital sourcing

- ***Digital sourcing continued to increase across products***
- More than 200k clients were on-boarded through Video KYC
- 90% of cards are originated digitally
- 92% of branch transactions are digital
- WhatsApp banking user base now more than 5mn
- 40% of MSME lending in less than Rs20mn is entire digital and plan to make it 100%

Miscellaneous

- Media speculation during the month pertains to an old investigation. Bank is not named as a party in FIR. Matter was also scrutinised by regulator in the past and requisite disclosure were done to exchanges in the past.
- On MFI, there is no pending work related to changes in organisation structure and processes

Q4FY22 concall takeaways

Opening remarks

- India much better placed to deal with macro headwinds.
- Will focus on new areas which are affluent banking, small corporate, merchant acquiring, affordable housing and Digital 2.0.
- Will continue to scale its franchise, invest in its franchise.
- Balance sheet at strongest level in the past few years.
- PAT up 13% QoQ and 51% YoY.
- ***Improvement in return ratios – RoA at 1.51% and RoE at 11.94% for Q4***

Economy

- India much better placed to deal with macro headwinds
- ***Much improved health of banking sector, significant deleveraging and increasing capacity utilisation reinforce case of investment cycle over the next 3-5 years***

Restructuring

- **Restructured book break-up of Rs 61.72bn: CFD at Rs 32.98bn, secured retail at Rs 6.86bn, unsecured retail at Rs 2.33bn, microfinance at Rs 9.95bn and corporate at Rs 9.61bn**
- **Restructured book has fallen from 3.3% to 2.5% QoQ and continues to perform well**

Loan book

- Loan growth improved every quarter from 3% in Q4FY21 to 12% in Q4FY22
- Loan growth up 5% QoQ driven by 5% QoQ growth in consumer and 4% QoQ in corporate
- All retail products including VF, microfinance saw one of the healthiest disbursements during Q4
- During the bank, it created digital centre of excellence

Asset quality

- Stressed pool has seen meaningful reduction during the quarter.
- GNPA at 2.27% from 2.48% QoQ and NNPA at 0.64% from 0.71% QoQ with PCR of 72%
- Not written back any provision from contingency buffer. Total contingency provisions at Rs 33.28bn
- No utilisation of contingency provisions
- **Total consumer banking Slippages of Rs 17.42bn break-up:**
 - Rs 5.53bn consumer finance
 - Rs 2.11bn secured retail
 - Rs 1.63bn unsecured
 - MFI at Rs 8.15bn
- Net slippages for the quarter at 0.6% vs 0.9% QoQ
- Net slippages break-up:
 - Rs 2.39bn consumer finance
 - Rs 1.48bn secured retail
 - Rs 1.16bn unsecured
 - MFI at Rs 6.96bn
- **Total of SMA 1 and SMA 2 at 59bps vs 84bps QoQ.**
- **Net SR at 83bps**

Margins

- Margins would remain in the range of 410-425bps irrespective of rate cycle
- If interest rates are rising, then even MCLR and benchmark rates rise though it might be with a lag of 2-3 months
- **Loan book: ~50% is fixed rate and balance 50% is floating (predominantly corporate)**
- Fixed rate book average tenure is 24 months for vehicle finance and ~12 months for microfinance
- Rs 30bn borrowings repriced at significantly low rates (200 bps) during the quarter, which resulted in lower borrowing cost

Priorities for FY23

- **Maintain disbursements momentum** particularly in areas of domain expertise which are vehicle finance, microfinance and gems portfolio which has seen good recoveries in disbursements
- **On track to achieve loans growth CAGR** of 15-18% over FY21-23E

- Launched three digital products during FY22 and other two for millennials and SME are in pipeline
- **Add new asset products - Launch of home loans, scale-up of tractors, affordable housing, merchant acquiring and small corporate**
- **Continue to believe liability driven growth strategy** by particularly investing in retail liability
- Liability side: scale up of affluent, NRI agency business and wealth management
- **Improve financial metrics** – aligned balance towards rising interest rate scenario which should aid margins and operating profit
- Provisions should come down with covid impact behind us

FY23 and near term guidance

- **Loan growth at 15-18%**
- **Retail liabilities at 15-18% CAGR over 3-year period**
- **Retail deposits mix target at 45-48% and on pace to achieve the same**
- **NIM at 4.1-4.25%**
- **Pre provision operating profit at >5%**
- **Credit cost at 120-150bps**

Liability profile

- CASA ratio improved to 42.7% and reduced concentration of top 20 depositors
- Deposits up 3% QoQ and 15% YoY including CASA growth of 5% QoQ and 17% YoY
- Retail TD as per LCR up 26% YoY
- **Investment in physical as well as digital distribution should help in garnering deposits**
- Bank is very clear that it wants to develop its retail franchise well
- Bulk deposits at 21% of overall portfolio and don't want to scale this further
- Affluent segment AUM at Rs 600bn
- **Deposit growth is achieved along with reduction in cost of deposits**
- **Overall, committed to liability growth with emphasis on retail TD**
- **CD ratio target is 88-92%**
- Average LCR at 127% vs. regulatory requirement of 100%
- Going to launch digital initiative on the liability front which should give another impetus on the liability front

Vehicle finance (VF)

- Disbursements at Rs 99.86bn, up 13% QoQ and 19% YoY
- FY22 disbursements at Rs 320bn, up from pre covid levels
- **Within VF, healthy disbursements in CV, CE, utility vehicles, tractors and car**
- **2W and 3W growth remains subdued**
- Small road transport segment has seen good demand despite fuel price hike
- Vehicle finance restructuring fell from Rs 37.69bn to Rs 32.98bn QoQ
- Vehicle finance collections from restructured book at 90%
- Overall remain optimistic for VF outlook
- Customers are able to pay more than 1 month EMI despite rise in fuel prices. However, they are not able to repay 3 months or so at time, if it is outstanding

Microfinance

- Cautious on microfinance disbursements on Q3 due to third wave
- Microfinance business has been coming back to normalcy
- Loanbook grew to Rs 306.1bn, up 16% YoY
- **Microfinance CE on standard at 99.1% ex restructuring**

- CE for incremental lending in FY22 at 99.5%
- Net slippages at Rs 6.96bn and Rs 25.47bn for FY22, broadly in-line with slippages expectations of the company
- Carrying over 90% coverage on GNPA
- 30-90dpd book has fallen from 5% to 2.6% QoQ
- **Very strong succession planning in place to address any leadership issues in microfinance segment**
- Currently managed by Executive Vice Chairman J Sridhar; may not hire CEO
- Bank is still contemplating that do they need another CEO or not for its microfinance business
- In-house senior management team aiding bank create lot of scalability - without taking away agility
- This quarter has been a representation of how this industry looks going ahead for the next few quarters
- **On credit cost, Q3 was maximum, Q4 was half of it and H1FY22 will see another 50% reduction**
- **Microfinance will continue to grow at 27-28% YoY and issues of asset quality are behind us and should be back at 2-2.5% credit cost for microfinance**

Merchant acquiring

- Scaled up impressively during the year despite multiple macro-economic challenges
- Loan book outstanding at Rs 19.43bn from Rs 14.63bn QoQ
- No. of borrowers at 324k from 260k QoQ
- Merchant acquisition book has reporting CE of more than 98% for the past 3 quarters and credit cost of less than 1.5%

Global Gems & Jewellery

- Diamond book up 29% YoY on the back of strengthening exports and diamond prices
- Business volumes slowed in Q4 due to Russia Ukraine war, but bank is working capital provider to only large corporates
- **Base case for the bank is conflict may result in lower growth, but no concerns on asset quality as bank is typically working capital financier to large corporates**
- Gems and jewellery book is 4% of loan book

Corporate banking

- Large and mid-corporate up 20% YoY
- Small corporate up 26% YoY, though on a small base (corporate with turnover of less than Rs 5bn)
- Proportion of A and above has improve to 71% from 68% YoY
- **During the quarter, restructured book fell to Rs 9.6bn from Rs 17bn**
- **Under restructured portfolio, construction finance saw repayments of Rs 5.8bn during Q4**
- **Interaction with corporate suggests increasing interest in private capex**
- **Seeing some greenshoots for private capex, but believe that public capex will lead before private capex kicks in**

Real estate and LRD

- Commercial real estate - very selective and has performed well; given profitable growth and continues to believe in this segment
- None of the accounts are under restructuring and only one account is in NPA

- **75% of the book has churned (repaid, prepaid, sell-down etc.) in real estate since April 2020 (both commercial and residential)**
- 120 odd projects and no chunky exposure in real estate and it is a well-diversified and good quality book
- **LRD book - latest portfolio has been performing well and rentals are back in full swing**
- Concerns that all would move to WFH and there would be no demand for commercial real estate have not played at all

Telecom exposure

- Rs 30bn exposure as of March 2022
- Exposure as on date stands at Rs 18.5bn (Rs 10bn is fund based and Rs 8.5bn is non fund based)

Retail

- **Retail up 6% QoQ driven by secured as well as unsecured**
- New customers acquisition nearly doubled from FY21
- **LAP up 2% QoQ after being stagnant for a year**
- Retail book of Rs 1.4bn slipped into NPA from restructuring and is fully provided for

Digital

- Bank created digital centre of excellence
- Set up a digital factory which is a 100-member team

Three digital initiatives and another two in pipeline

- Easy credit for unsecured retail loans - 84% of card origination business is digital vs. 37% a year ago
- Digital VF - launched Indus easy wheels portal which shows services like road assistance, insurance, servicing etc.
- Merchant - all in one app for merchants with close to 60k user base and 75% being new to bank
- Also, it has planned initiatives for millennials (focusing on Payments) and SME offering

Opex and fee income

- Cost to income to 42.6% from 41.6% QoQ
- **Cost accelerated due to business revival and investment in technology**
- Other income up 7% YoY
- Core fee ex trading income up

Changes in senior management

- **M R Rao** opted for a mutual separation from April 2022 as microfinance business is now back in shape
- **Sanjay Malik** who was on sabbatical for a year has decided to move on

Closing remarks

- Getting future ready for investments in digital
- **Well provided towards asset quality**
- Competitive edge is 3 domain areas
- True earnings power of the franchise will start coming back
- **All set to what this bank was supposed to be and net year would be a year of delivery of what has been committed**

Chart 1: Deposits growth steady, CD ratio expands

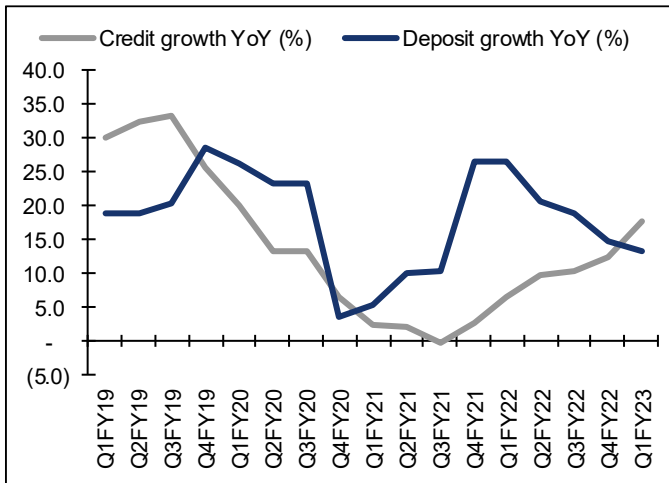


Chart 2: Consumer share sustains above 50%

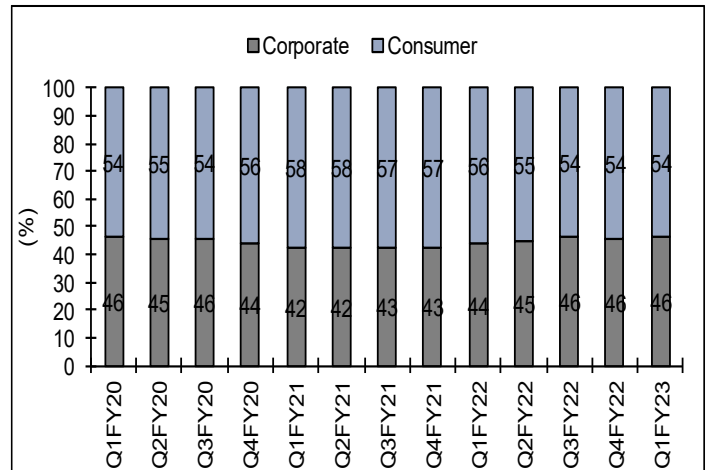


Chart 3: Margins stayed put at 4.21% due to benefit of borrowing repricing

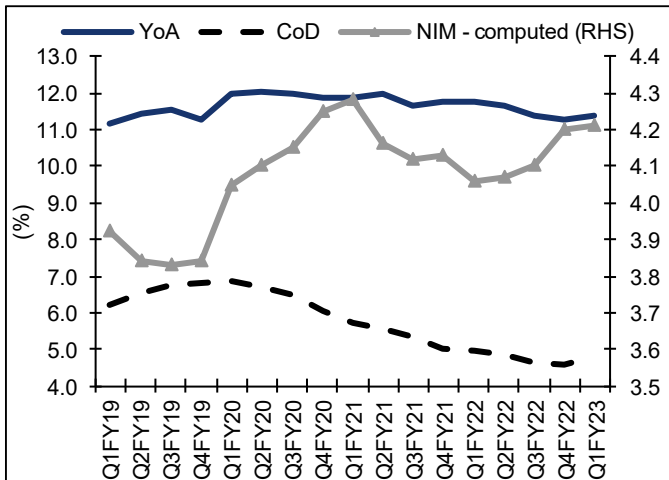


Chart 4: Opex up 21%YoY, catching up with peers

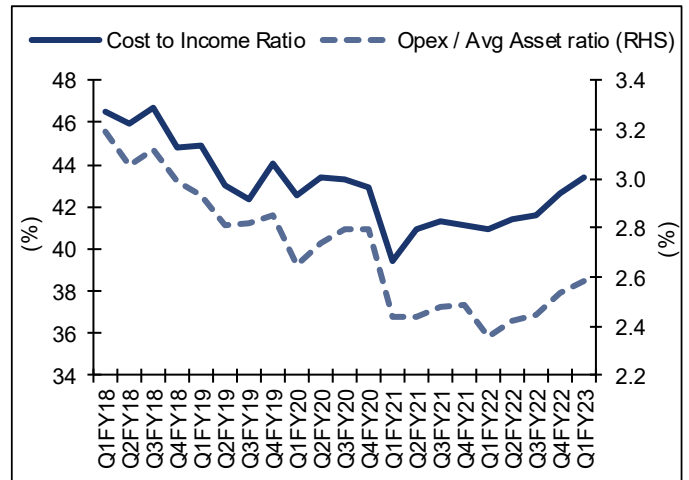


Chart 5: Slippages elevated at 3.8% with >40% flowing from restructured pool

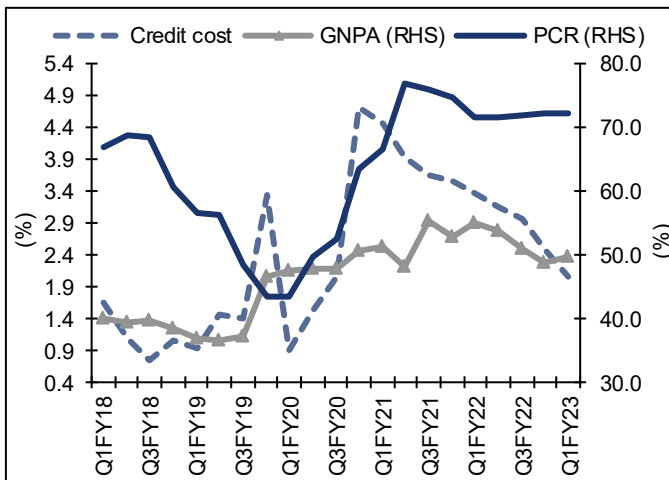
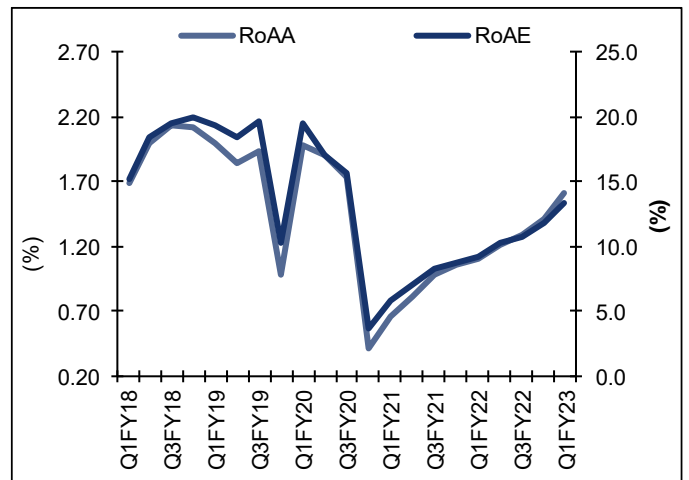


Chart 6: 1.7% RoA and 13.4% RoE, thereby reaffirming our (above the consensus) confidence



Source: Company data, I-Sec research

Financial summary

Table 7: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	68,401	85,325	1,06,862	1,20,284	1,35,279	1,50,008	1,69,879	1,94,194
% Growth	51	25	25	13	12	11	13	14
Fee income	30,195	35,549	43,900	46,288	37,120	47,064	61,183	73,420
Add: Other income	14,800	15,522	16,660	23,236	27,894	26,346	27,531	30,702
Total Net Income	1,13,396	1,36,396	1,67,421	1,89,808	2,00,293	2,23,418	2,58,593	2,98,315
% Growth	45	20	23	13	6	12	16	15
Less: Operating Expenses	(53,363)	(62,924)	(72,930)	(81,826)	(81,568)	(93,107)	(1,11,743)	(1,30,340)
Pre-provision operating profit	60,033	73,471	94,491	1,07,982	1,18,725	1,30,311	1,46,850	1,67,976
NPA Provisions	(7,048)	(9,010)	(27,050)	(30,290)	(47,970)	(11,320)	(44,703)	(42,030)
Other provisions	(7,459)	(5,094)	(4,747)	(16,229)	(31,455)	(54,664)	(3,552)	(4,376)
PBT	45,526	59,367	62,694	61,462	39,300	64,328	98,596	1,21,569
Less: taxes	(13,949)	(18,764)	(19,929)	(17,198)	(9,995)	(16,282)	(24,817)	(30,599)
PAT	31,577	40,603	42,766	44,265	29,304	48,046	73,779	90,970
% Growth	38	29	5	4	(34)	64	54	23

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending Mar 31)

	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	5,981	6,869	6,869	6,935	7,734	7,747	7,747	7,747
Reserve & Surplus	2,23,567	2,61,004	3,01,673	3,40,130	4,27,273	4,72,517	5,35,016	6,11,815
Deposits	12,65,722	15,16,392	19,48,679	20,20,398	25,58,701	29,33,495	33,44,184	38,79,253
Borrowings	2,57,860	4,69,061	5,20,991	6,07,536	5,13,228	4,73,232	4,70,740	4,93,777
Other liabilities	1,36,149	77,723	1,01,714	95,577	1,22,097	1,32,683	1,45,951	1,60,546
Total liabilities	18,89,280	23,31,049	28,79,927	30,70,576	36,29,033	40,19,674	45,03,638	51,53,139
Cash & Bank Balances	2,14,346	1,53,758	1,67,914	1,60,037	5,66,099	6,85,847	7,26,739	7,44,260
Investment	3,67,023	5,00,769	5,92,664	5,99,799	6,96,534	7,09,299	8,01,746	9,22,051
Advances	12,01,635	15,44,727	19,41,015	20,67,832	21,25,954	23,90,515	27,78,557	32,82,282
Fixed Assets	13,573	14,183	15,279	18,201	18,757	19,288	22,641	24,353
Other Assets	92,702	1,17,613	1,63,056	2,24,707	2,21,688	2,14,725	1,73,955	1,80,192
Total Assets	18,89,280	23,31,049	28,79,927	30,70,576	36,29,033	40,19,674	45,03,638	51,53,139
% Growth	34.9	23.4	23.5	6.6	18.2	10.8	12.0	14.4

Source: Company data, I-Sec research

Table 9: Du-pont analysis

(% , year ending Mar 31)

	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	9.6	9.0	9.6	9.7	8.7	8.1	8.3	8.4
Interest expense	(5.5)	(5.0)	(5.5)	(5.6)	(4.6)	(4.1)	(4.3)	(4.4)
NII	4.2	4.0	4.1	4.0	4.0	3.9	4.0	4.0
Other income	0.9	0.7	0.6	0.8	0.8	0.7	0.6	0.6
Fee income	1.8	1.7	1.7	1.6	1.1	1.2	1.4	1.5
Total income	6.9	6.5	6.4	6.4	6.0	5.8	6.1	6.2
Operating expenses	(3.2)	(3.0)	(2.8)	(2.8)	(2.4)	(2.4)	(2.6)	(2.7)
Operating profit	3.6	3.5	3.6	3.6	3.5	3.4	3.4	3.5
NPA provision	(0.4)	(0.4)	(1.0)	(1.0)	(1.4)	(0.3)	(1.0)	(0.9)
Total provisions	(0.9)	(0.7)	(1.2)	(1.6)	(2.4)	(1.7)	(1.1)	(1.0)
PBT	2.8	2.8	2.4	2.1	1.2	1.7	2.3	2.5
Tax	(0.8)	(0.9)	(0.8)	(0.6)	(0.3)	(0.4)	(0.6)	(0.6)
PAT	1.9	1.9	1.6	1.5	0.9	1.3	1.7	1.9

Source: Company data, I-Sec research

Note: All numbers represent the merged entity FY18 onwards

Table 10: Key ratios

(Year ending Mar 31)

	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS – Diluted (Rs)	52.8	61.1	62.3	63.8	37.9	62.0	95.2	117.4
% Growth	37.4	15.7	1.9	2.5	-40.6	63.7	53.6	23.3
DPS (Rs)	6.0	7.5	7.5	-	5.0	8.5	11.4	14.1
Book Value per share (BVPS) (Rs)	377	398	445	496	559	616	697	797
% Growth	29.7	5.5	11.7	11.6	12.6	10.3	13.1	14.2
Adjusted BVPS (Rs)	370	391	423	476	544	602	682	781
% Growth	29.8	5.4	8.4	12.4	14.4	10.5	13.4	14.6
Valuations								
Price / Earnings (x)	16.7	14.4	14.1	13.8	23.2	14.2	9.2	7.5
Price / Book (x)	2.3	2.2	2.0	1.8	1.6	1.4	1.3	1.1
Price / Adjusted BV (x)	2.4	2.3	2.1	1.8	1.6	1.5	1.3	1.1
Asset Quality								
Gross NPA (Rs mn)	14,871	19,199	41,583	51,464	57,950	57,279	60,190	62,101
Gross NPA (%)	1.2	1.2	2.1	2.5	2.7	2.4	2.1	1.9
Net NPA (Rs mn)	6,261	7,537	22,533	18,866	14,766	15,360	15,860	15,830
Net NPA (%)	0.5	0.5	1.2	0.9	0.7	0.6	0.6	0.5
NPA Coverage ratio (%)	58	61	46	63	75	73	74	75
Gross Slippages (%)	1.6	2.0	3.5	3.0	3.6	4.7	3.0	2.5
Credit Cost (%)	1.4	1.0	1.8	2.3	3.7	2.9	1.8	1.5
Net NPL/Networth	2.7	2.8	7.3	5.4	3.4	3.2	2.9	2.6
Business ratios (%)								
ROAA	1.9	1.9	1.6	1.5	0.9	1.3	1.7	1.9
ROAE	15.8	16.6	15.0	13.6	7.6	10.6	14.5	15.7
Credit Growth	35.9	28.6	25.7	6.5	2.8	12.4	16.2	18.1
Deposits Growth	36.1	19.8	28.5	3.7	26.6	14.6	14.0	16.0
CASA	36.9	44.0	43.1	40.4	41.7	42.7	45.0	47.0
Credit / Deposit Ratio	94.9	101.9	99.6	102.3	83.1	81.5	83.1	84.6
Cost-Income ratio	47.1	46.1	43.6	43.1	40.7	41.7	43.2	43.7
Operating Cost / Avg. Assets	3.2	3.0	2.8	2.8	2.4	2.4	2.6	2.7
Fee Income / Total Income	1.8	1.7	1.7	1.6	1.1	1.2	1.4	1.5
Earning ratios								
Yield on Advances	12.2	11.1	11.6	12.0	11.5	11.1	11.2	11.1
Yield on Earning Assets	x	9.6	10.2	10.4	9.3	8.6	8.7	8.8
Cost of Deposits	6.3	5.8	6.1	6.7	5.7	4.8	5.0	5.1
Cost of Funds	6.7	6.0	6.4	6.6	5.4	4.9	5.0	5.2
NIM	4.4	4.3	4.4	4.4	4.4	4.2	4.2	4.2
Capital Adequacy (%)								
RWA (Rs)	14,28,355	18,59,290	23,41,297	25,86,050	27,29,120	32,52,105	36,88,812	43,12,092
Tier I	16.1	14.4	13.2	14.6	16.8	14.8	14.7	14.4
CAR	17.0	15.2	14.0	15.0	17.4	15.4	15.3	14.9

Source: Company data, I-Sec research

Note: All numbers represent the merged entity FY18 onwards

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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