

| INDUSTRY                       | BANKS                 |     |      |
|--------------------------------|-----------------------|-----|------|
| <b>CMP (as on 19 Apr 2018)</b> | <b>Rs 1,833</b>       |     |      |
| <b>Target Price</b>            | <b>Rs 1,966</b>       |     |      |
| Nifty                          | 10,565                |     |      |
| Sensex                         | 34,427                |     |      |
| KEY STOCK DATA                 |                       |     |      |
| Bloomberg                      | IIB IN                |     |      |
| No. of Shares (mn)             | 600                   |     |      |
| MCap (Rs bn) / (\$ mn)         | 1,100/16,728          |     |      |
| 6m avg traded value (Rs mn)    | 2,198                 |     |      |
| STOCK PERFORMANCE (%)          |                       |     |      |
| <b>52 Week high / low</b>      | <b>Rs 1,878/1,375</b> |     |      |
|                                | 3M                    | 6M  | 12M  |
| Absolute (%)                   | 8.8                   | 8.4 | 28.9 |
| Relative (%)                   | 119                   | 2.1 | 11.6 |
| SHAREHOLDING PATTERN (%)       |                       |     |      |
| Promoters                      | 16.77                 |     |      |
| FIs & Local MFs                | 11.17                 |     |      |
| FPIs                           | 52.06                 |     |      |
| Public & Others                | 20.00                 |     |      |
| <i>Source : BSE</i>            |                       |     |      |

## A spot on the canvas

Divergence in asset quality coupled with subdued fees (+12% YoY, a multi-quarter low) marred an otherwise robust show for IIB. Broad based growth (+28%), controlled opex (11/2% YoY/QoQ) and robust CASA accretion (CASA Ratio +870bps YoY) were heartening. The sequential uptick in corp yields (+11bps, a pleasant surprise) balanced out the retail drop (17bps) and kept NIMs stable at 3.97%.

IIBs ability of consistently beating daunting targets and precise execution capabilities drive our constructive thesis. We believe IIB (along with a few other large private banks) is well positioned to capture market share ceded by the PSBs and deliver robust growth in the near future. Additionally, the managements focus on widening product offerings by creating (or acquiring) financial service subs will create long term wealth. The impending merger with BFI will further boost return ratios. Maintain BUY with a TP of Rs 1,966 (3.75x Mar-20 ABV of Rs 524)

### Financial Summary

| (Rs mn)             | 4QFY18 | 4QFY17 | YoY (%) | 3QFY18 | QoQ (%) | FY17   | FY18P  | FY19E  | FY20E   |
|---------------------|--------|--------|---------|--------|---------|--------|--------|--------|---------|
| Net Interest Income | 20,076 | 16,675 | 20.4    | 18,948 | 6.0     | 60,626 | 74,974 | 93,169 | 118,571 |
| PPOP                | 17,689 | 15,722 | 12.5    | 16,649 | 6.2     | 54,510 | 66,558 | 81,611 | 102,850 |
| PAT                 | 9,526  | 7,516  | 26.7    | 9,365  | 1.7     | 28,679 | 36,057 | 44,733 | 56,420  |
| EPS (Rs)            | 15.9   | 12.6   | 26.3    | 15.6   | 1.7     | 47.9   | 60.1   | 74.5   | 94.0    |
| ROAE (%)            |        |        |         |        |         | 15.3   | 16.5   | 17.6   | 19.0    |
| ROAA (%)            |        |        |         |        |         | 1.78   | 1.80   | 1.79   | 1.82    |
| Adj. BVPS (Rs)      |        |        |         |        |         | 331    | 379    | 443    | 524     |
| P/ABV (x)           |        |        |         |        |         | 5.53   | 4.84   | 4.14   | 3.50    |
| P/E (x)             |        |        |         |        |         | 38.2   | 30.5   | 24.6   | 19.5    |

Source: Bank, HDFC sec Inst Research. Note: We have not factored the BFI merger in our estimates.

### Highlights of the quarter

- Though the divergence of ~Rs 13.5bn is optically large, effective additions after adjusting for transaction based one-offs (Rs 5.28bn), timely repayments (Rs 2.57bn) and recognition (Rs 2.36bn) were merely Rs 1.86bn. The managements focus on quality of credit, a miniscule restructured book (5bps) and negligible SMA-II (13bps) provides comfort on asset quality. We have conservatively factored in slippages of 1.35% and LLP of ~70bps over FY18-20E
- Growth of ~28/13% YoY/QoQ was largely broad based. Corporate growth (+30%) was driven by a 41% jump in large corporates while robust VF disbursements (+47/12% YoY/QoQ) drove retail growth. We believe growth should sustain given the upward trajectory in customer acquisition and IIB's market leadership in certain segments. We have factored in a loan CAGR of 26% over FY18-20E.
- Near term outlook:** Asset quality disappointment is expected to weigh on the stock in the near term.

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**Five Quarters At A Glance**

| Rs mn                             | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | YoY Growth | QoQ Growth |
|-----------------------------------|--------|--------|--------|--------|--------|------------|------------|
| Net Interest Income               | 16,675 | 17,741 | 18,210 | 18,948 | 20,076 | 20.4%      | 6.0%       |
| Non-interest Income               | 12,113 | 11,673 | 11,876 | 11,870 | 12,080 | -0.3%      | 1.8%       |
| Treasury Income                   | 2150   | 1930   | 1750   | 1100   | 950    | -55.8%     | -13.6%     |
| Operating Income                  | 28,788 | 29,413 | 30,086 | 30,818 | 32,156 | 11.7%      | 4.3%       |
| Operating Expenses                | 13,065 | 13,528 | 13,751 | 14,169 | 14,467 | 10.7%      | 2.1%       |
| Pre Provision Profits (PPOP)      | 15,722 | 15,885 | 16,335 | 16,649 | 17,689 | 12.5%      | 6.2%       |
| Provisions And Contingencies      | 4,301  | 3,100  | 2,938  | 2,362  | 3,356  | -22.0%     | 42.1%      |
| NPA Provisions                    | 2556   | 2100   | 2220   | 1870   | 2820   | 10.3%      | 50.8%      |
| PBT                               | 11,421 | 12,786 | 13,398 | 14,288 | 14,333 | 25.5%      | 0.3%       |
| Provision for Tax                 | 3,905  | 4,420  | 4,597  | 4,923  | 4,808  | 23.1%      | -2.3%      |
| PAT                               | 7,516  | 8,365  | 8,801  | 9,365  | 9,526  | 26.7%      | 1.7%       |
| <b>Balance Sheet items/ratios</b> |        |        |        |        |        |            |            |
| Deposits                          | 1,266  | 1,337  | 1,414  | 1,461  | 1,516  | 19.8%      | 3.8%       |
| CASA Deposits                     | 446    | 505    | 598    | 626    | 667    | 49.5%      | 6.6%       |
| Advances                          | 1,131  | 1,164  | 1,232  | 1,285  | 1,450  | 28.2%      | 12.8%      |
| CD Ratio (%)                      | 89.3   | 87.1   | 87.1   | 88.0   | 95.6   | 625 bps    | 760 bps    |
| CAR (%)                           | 15.31  | 16.18  | 15.63  | 15.83  | 15.03  | -28 bps    | -80 bps    |
| Tier I (%)                        | 14.72  | 15.66  | 15.09  | 15.33  | 14.58  | -14 bps    | -75 bps    |
| <b>Profitability</b>              |        |        |        |        |        |            |            |
| Yield On Advances (%)             | 11.41  | 11.53  | 11.27  | 11.04  | 11.08  | -33 bps    | 4 bps      |
| Cost Of Deposits (%)              | 6.08   | 6.15   | 5.90   | 5.93   | 5.98   | -10 bps    | 5 bps      |
| NIM (%)                           | 4.00   | 4.00   | 4.00   | 3.99   | 3.97   | -3 bps     | -2 bps     |
| Cost-Income Ratio (%)             | 45.4   | 46.0   | 45.7   | 46.0   | 45.0   | -39 bps    | -99 bps    |
| Tax Rate (%)                      | 34.2   | 34.6   | 34.3   | 34.5   | 33.5   | -65 bps    | -91 bps    |
| <b>Asset quality</b>              |        |        |        |        |        |            |            |
| Gross NPA (Rs bn)                 | 10.5   | 12.7   | 13.5   | 15.0   | 17.0   | 61.6%      | 13.8%      |
| Net NPA (Rs bn)                   | 4.4    | 5.1    | 5.4    | 5.9    | 7.5    | 69.9%      | 25.9%      |
| Gross NPAs (%)                    | 0.93   | 1.09   | 1.08   | 1.16   | 1.17   | 24 bps     | 1 bps      |
| Net NPAs (%)                      | 0.39   | 0.44   | 0.44   | 0.46   | 0.51   | 12 bps     | 5 bps      |
| Delinquency Ratio (%)             | 2.35   | 2.12   | 1.66   | 1.30   | 2.52   | 17 bps     | 122 bps    |
| Restructuring O/s (%)             | 0.37   | 0.17   | 0.16   | 0.15   | 0.05   | -32 bps    | -10 bps    |
| Coverage Ratio (%)                | 58.4   | 60.0   | 60.1   | 60.5   | 56.3   | -213 bps   | -422 bps   |

**Change In Estimates**

| (Rs mn)        | FY19E  |        |        | FY20E   |         |        |
|----------------|--------|--------|--------|---------|---------|--------|
|                | Old    | New    | Change | Old     | New     | Change |
| NII            | 93,573 | 93,169 | -0.4%  | 117,141 | 118,571 | 1.2%   |
| PPOP           | 81,386 | 81,611 | 0.3%   | 100,949 | 102,850 | 1.9%   |
| PAT            | 44,616 | 44,733 | 0.3%   | 55,373  | 56,420  | 1.9%   |
| Adj. BVPS (Rs) | 443.6  | 443.2  | -0.1%  | 523.7   | 524.2   | 0.1%   |

Source: HDFC sec Inst Research

**Driven by robust loan growth of 28% YoY and stable NIMs**

**Growth was subdued largely owing to a dip in Loan processing fees (-6% YoY/QoQ)**

**The tight leash on costs led to a 270/130bps improvement in the core C-I ratio**

**Led by strong traction in SA (+70%) and CA (+18%). Consequently, the CASA ratio jumped 870bps YoY to 44%**

**Growth was broad based as corp loans grew by ~30% YoY while CFD grew ~26%. Within CFD, the non-vehicle portfolio reported a robust growth of ~31% YoY**

**Cushioned by 11bps rise in Corp yields, even as CFD yields dipped 17bps; MCLR linked book stands at ~50% and fixed rate book at 40%**

**2<sup>nd</sup> consecutive qtr of deterioration**

**IIB reported divergence for the 2<sup>nd</sup> consecutive year. As per the RBI assessment, FY17 GNPA's are higher by ~Rs 13.5bn (i.e. 1.19% of the FY17 loan book) and NNPA's by ~Rs10bn (88bps of loans).**

**Corp slippages stood at Rs 5.4bn (2.46% annu. vs. 75bps QoQ) and CFD slippages at Rs 3.2bn (2.24% vs. 2.0% QoQ)**

**Loan growth was driven by the corporate segment (+30%) and CFD (+26%) YoY**

**Corporate growth was driven by large corporates (+41% YoY)**

**The non-vehicle CFD portfolio grew ~31/8% YoY/QoQ, led by strong growth in credit cards (+58%), PL (+59%) and Equipment financing (+33%)**

**VF disbursements grew ~47/12% YoY/QoQ w/w CV disbursements grew ~67/27% YoY/QoQ**

**Within the VF portfolio, only 3Ws reported single-digit YoY growth**

**Average ticket size of a SA customer is ~62k**

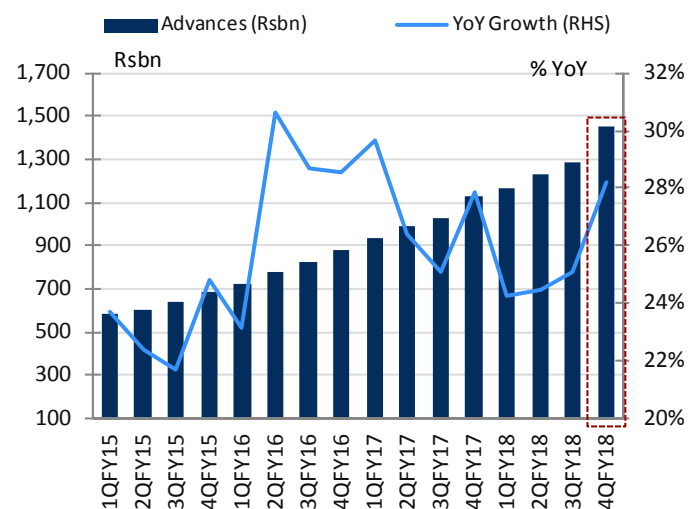
### Growth momentum continues

- IIB continued to deliver broad based and healthy loan growth (+28% YoY). This was led by 30/8% YoY/QoQ growth in the corp segment (60.5% of loans; +184bps QoQ) and 26/8% YoY/QoQ growth in the CFD segment (39.5% of total).
- The corp growth was largely driven by refinance and increasing wallet share with various high rated PSU companies. Uptick (26% vs. 20-23% in earlier qtrs) in the CFD segment was encouraging, as it was evenly spread and led by healthy disbursements (47% YoY) in the VF segment (led by 67% rise in CV disbursements). Non-VF retail loans also grew ~31/8% YoY/QoQ, led by

58/59/14% growth in the CC/PL/LAP respectively. The bank has consciously slowed down growth in LAP given higher competition and irrational pricing.

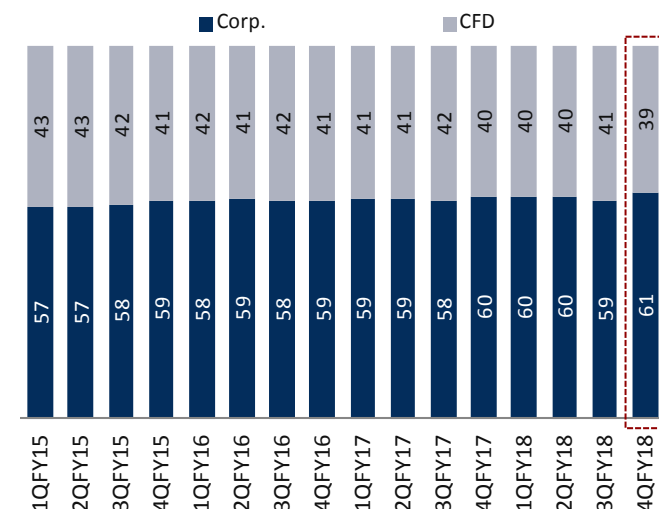
- IIB's CASA grew 50/7% YoY/QoQ to form ~44% (+114bps QoQ and 873bps FY18) of deposits. The healthy growth was led by sustained momentum (~70/9% YoY/QoQ) in SA deposits. **Surge in SA deposits was largely due to continued customer addition (added 0.6mn customers during the qtr vs. 0.3mn in 3Q) and sticky government business.**
- The management will revisit their PC-4 targets once the integration of BFI is complete

### Strong Loan Growth Of ~28% YoY



Source: Company, HDFC sec Inst Research

### Loan Mix (%) Corp Loans Gaining Traction



Source: Company, HDFC sec Inst Research

**CV proportion jumps 100 bps QoQ to ~39.5% of the CFD book**

**The share of CC and PL continues to increase**

**SA growth momentum continues (70/9% YoY/QoQ)**

**Added ~0.6mn customers vs. 0.3mn QoQ during the qtr**

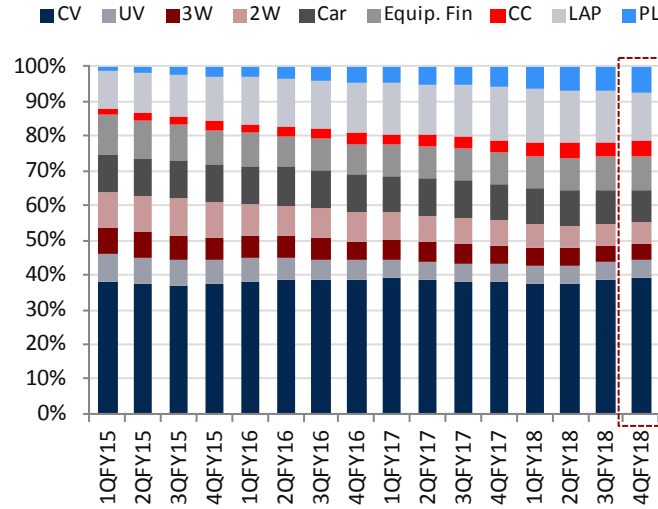
**CASA ratio improved ~114bps QoQ (after 60bps QoQ in 3Q) and 870bps YoY to ~44%**

**Corp yields increased ~11bps QoQ and CFD yields dipped ~17bps**

**Pressure in CFD is largely owing to irrational pricing by some CV lenders**

**IIB has the ability to tweak SA rates to reduce cost of SA**

**CFD Mix: Granularity Continues To improve**

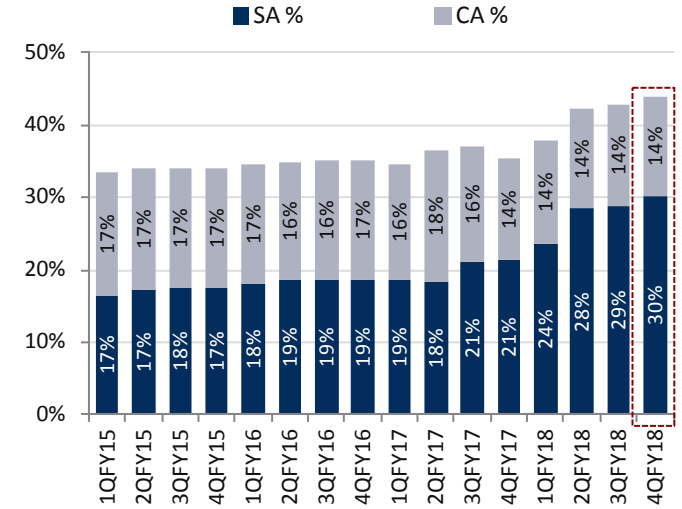


Source: Bank, HDFC sec Inst Research

**Stable NIMs and slower fee growth**

- With a similar movement in yields (+4bps) and CoF (5bps), NIMs were stable QoQ at 3.97%. The sequential spike in corp yields (+11bps) compensated for the dip (-17bps) in the CFD segment. The mgt attributed this dip to irrational pricing by some CV lenders. However, the pressure is expected to ease over the next few quarters.
- We believe NIMs should sustain at these levels, given the management’s focus on (1) growing the high yielding CFD book faster, (2) constantly capturing CASA deposits and (3) Accretion to the MFI book (post merger). The flexibility to tweak SA rates and the recent increase in MCLR (40bps) provides some

**CASA Ratio: Up 870/110 bps YoY/QoQ**



Source: Bank, HDFC sec Inst Research

headroom for maintaining higher NIMs, even as the CD ratio moderates hereon. We have factored in NIMs of 4.1% over FY18-20E.

- Core fees growth at a mere 12/3% YoY/QoQ (multi quarter low) was a big disappointment. This is largely due to de-growth (~6% YoY) in loan processing fees, tepid general banking fees (up merely 3%) and slow 3<sup>rd</sup> party distribution (+13%).
- However, trade & remittance and IB fees grew ~26% and ~24% respectively. Despite the slower growth, IIB’s core fees at 3.26% of loans - one of the healthiest amongst the peers and remains a key contributor to the banks’ superior RoAA.

*We have factored in calc. NIMs of 4.1% over FY18-20E*

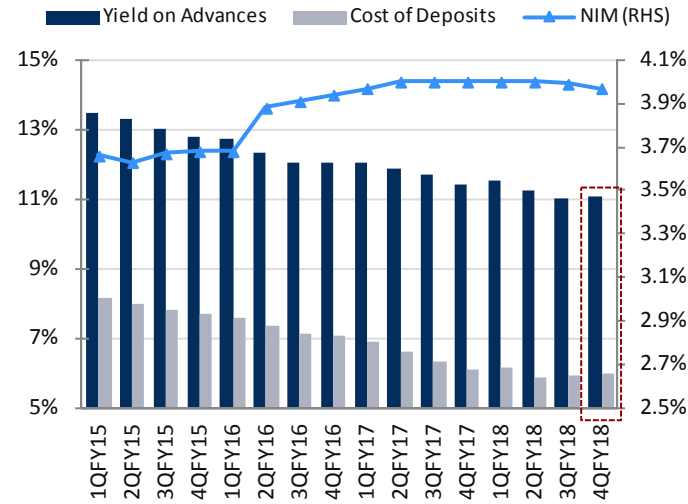
*Core fees grew at slow pace (~12/3% YoY/QoQ)*

*This was led by de-growth in processing fees and muted banking fees*

*Treasury gains dipped QoQ from Rs 1.1bn to Rs 0.9bn*

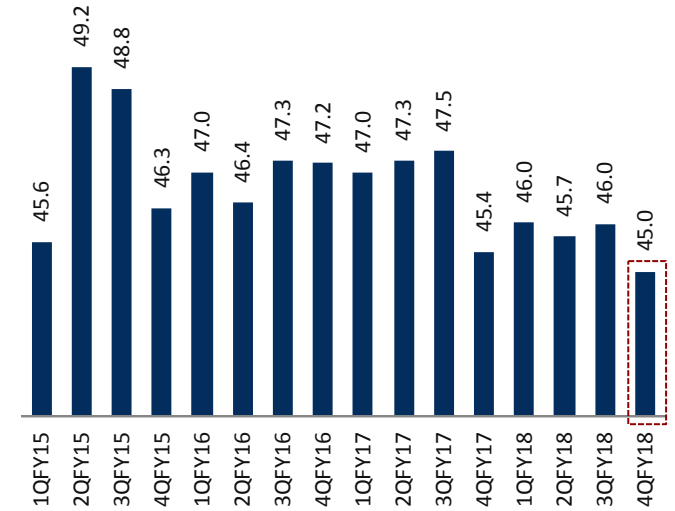
*Non-interest income contributed ~38% of the total income and core fees is ~3.26% of loans - highest amongst peers*

**NIM Strong At ~4% (Flat QoQ)**



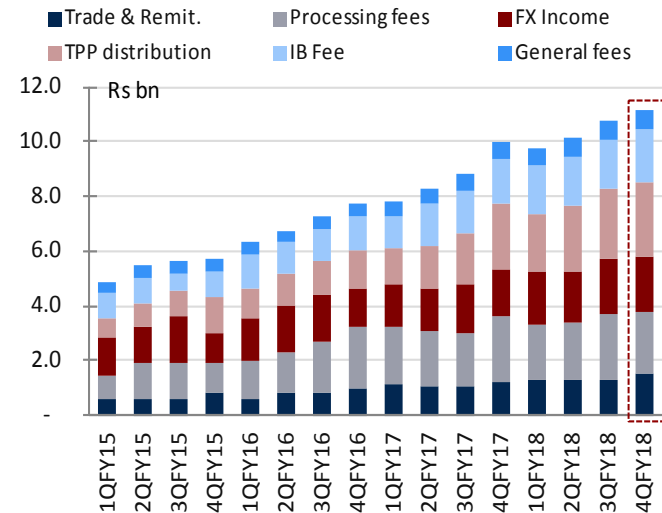
Source: Bank, HDFC sec Inst Research

**C-I Ratio: down 100 bps QoQ**



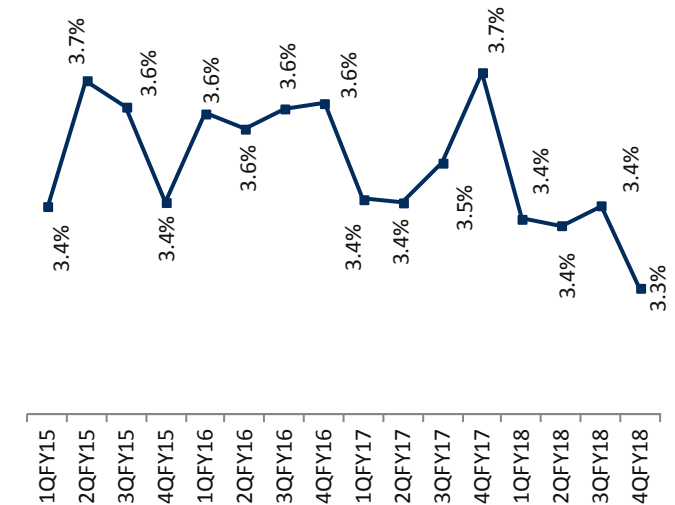
Source: Bank, HDFC sec Inst Research

**Well-diversified Fee Income Stream**



Source: Bank, HDFC sec Inst Research

**Fee Income As % of Loans Dips 17bps QoQ**



Source: Bank, HDFC sec Inst Research

**Sequentially slippages (Rs 8.6bn; 2.52% annu) were higher due to the impact of RBI divergence (Rs 1.86bn) and one large gems & jewellery account**

**Corp. Slippages were higher QoQ at Rs 5.39bn (2.8% annu.)**

**O/S SR stood at ~Rs 4.7bn (0.3%) and restructured book stood at 5bps QoQ**

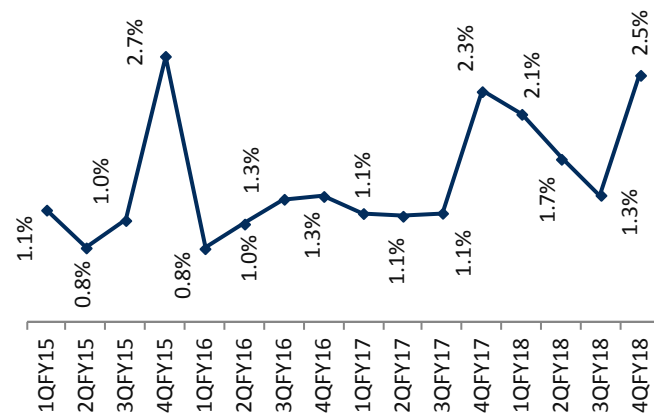
**SMA II exposure stood at a mere 13bps**

### Asset quality deteriorates

- Asset quality performance disappointed with higher than expected rise in slippages and huge divergence for FY17. GNPA's at Rs 17.05bn, +14% QoQ (after 10% QoQ in 3Q) were higher as slippages were elevated at Rs 8.6bn (2.52% vs. 1.3% QoQ and 2.35% YoY).
- Corporate slippages spiked (Rs 5.4bn i.e. 2.46% annu. vs. 2.87% YoY and only 75bps QoQ) largely impacted by RBI divergence (Rs 1.86bn) and one prominent account in gems & jewellery. CFD slippages were also higher at 2.24% vs. 2.0% QoQ and 1.6% annu. The CFD GNPA's were higher due to a jump across segments esp. CV, cards, LAP and CE.

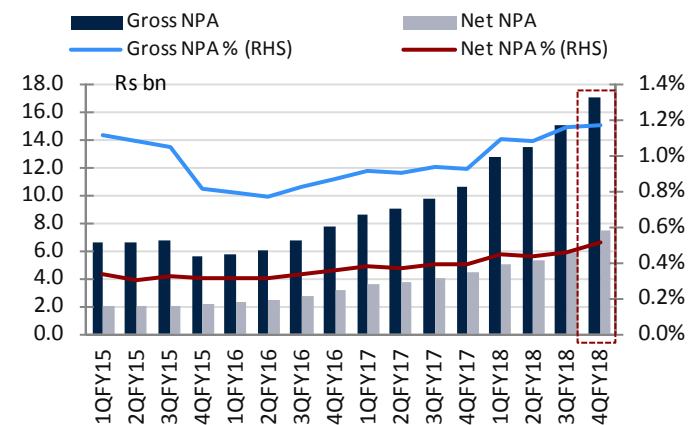
- ILB reported divergence for the 2<sup>nd</sup> consecutive year. As per the RBI assessment, FY17 GNPA's are higher by ~Rs 13.5bn (i.e. 1.19% of the FY17 loans) and NNPA's by ~Rs10bn (88bps of loans).
- ILB has aggregate exposures of Rs 3.85bn towards the NCLT lists with a provision coverage of ~65%
- We have conservatively increased our slippage assumption to 1.35% from 1.2% over FY18-20E. We believe this provides a cushion, given lower exposure to stressed assets, a diversified and granular book along with a mere 5bps of restructured book and 13bps of SMA II exposure.**

### Jump In Slippages Led By Corp Segment



Source : Bank, HDFC sec Inst Research

### Asset Quality Deteriorates Further



Source: Bank, HDFC sec Inst Research

### Asset Quality Segment-Wise

| Corp             | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNPA             | 0.53%  | 0.54%  | 0.65%  | 0.74%  | 0.76%  | 0.73%  | 0.79%  | 0.81%  | 0.98%  | 1.12%  | 1.21%  | 1.20%  |
| Slippages (Ann.) | 0.13%  | 0.66%  | 0.96%  | 0.85%  | 0.70%  | 0.51%  | 0.75%  | 2.87%  | 2.03%  | 1.55%  | 0.75%  | 2.46%  |
| LLP (Ann.)       | 0.38%  | 0.63%  | 0.66%  | 0.56%  | 0.48%  | 0.52%  | 0.51%  | 1.17%  | 0.63%  | 0.78%  | 0.40%  | 0.72%  |

| CFD              | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNPA             | 1.15%  | 1.10%  | 1.08%  | 1.08%  | 1.14%  | 1.17%  | 1.16%  | 1.12%  | 1.25%  | 1.06%  | 1.10%  | 1.14%  |
| Slippages (Ann.) | 1.64%  | 1.50%  | 1.68%  | 1.90%  | 1.69%  | 1.90%  | 1.63%  | 1.60%  | 2.18%  | 1.72%  | 2.00%  | 2.24%  |
| LLP(Ann.)        | 0.71%  | 0.65%  | 0.77%  | 0.88%  | 0.85%  | 0.79%  | 0.73%  | 0.62%  | 0.89%  | 0.68%  | 0.88%  | 0.99%  |

Source: Bank, HDFC sec Inst Research



***NPA in CV and LAP witnessed some uptick***

### Consumer Finance: GNPA's

|           | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| CV        | 1.18%  | 1.10%  | 1.05%  | 1.03%  | 1.05%  | 1.03%  | 0.96%  | 0.94%  | 1.10%  | 1.05%  | 1.01%  | 1.08%  |
| UV        | 1.06%  | 1.03%  | 1.00%  | 1.22%  | 1.30%  | 1.18%  | 1.09%  | 1.14%  | 1.47%  | 1.42%  | 1.31%  | 1.33%  |
| CE        | 1.46%  | 1.57%  | 1.45%  | 1.31%  | 1.44%  | 1.45%  | 1.28%  | 1.23%  | 1.11%  | 1.00%  | 1.11%  | 1.13%  |
| 3W/SCV s  | 1.04%  | 0.84%  | 0.81%  | 0.98%  | 1.10%  | 1.00%  | 0.86%  | 0.93%  | 1.35%  | 1.13%  | 1.24%  | 1.28%  |
| 2Ws       | 2.65%  | 2.83%  | 2.95%  | 3.06%  | 3.20%  | 3.74%  | 3.78%  | 3.55%  | 3.62%  | 3.63%  | 3.98%  | 3.95%  |
| Cars      | 0.58%  | 0.41%  | 0.39%  | 0.52%  | 0.50%  | 0.50%  | 0.76%  | 0.67%  | 0.76%  | 0.69%  | 0.64%  | 0.68%  |
| LAP/PL/HL | 0.48%  | 0.41%  | 0.57%  | 0.76%  | 0.92%  | 1.00%  | 1.15%  | 1.26%  | 1.46%  | 0.54%  | 0.83%  | 0.91%  |
| Cards     | 1.32%  | 1.35%  | 1.48%  | 1.54%  | 1.79%  | 1.80%  | 1.71%  | 1.43%  | 1.32%  | 1.56%  | 1.73%  | 1.74%  |

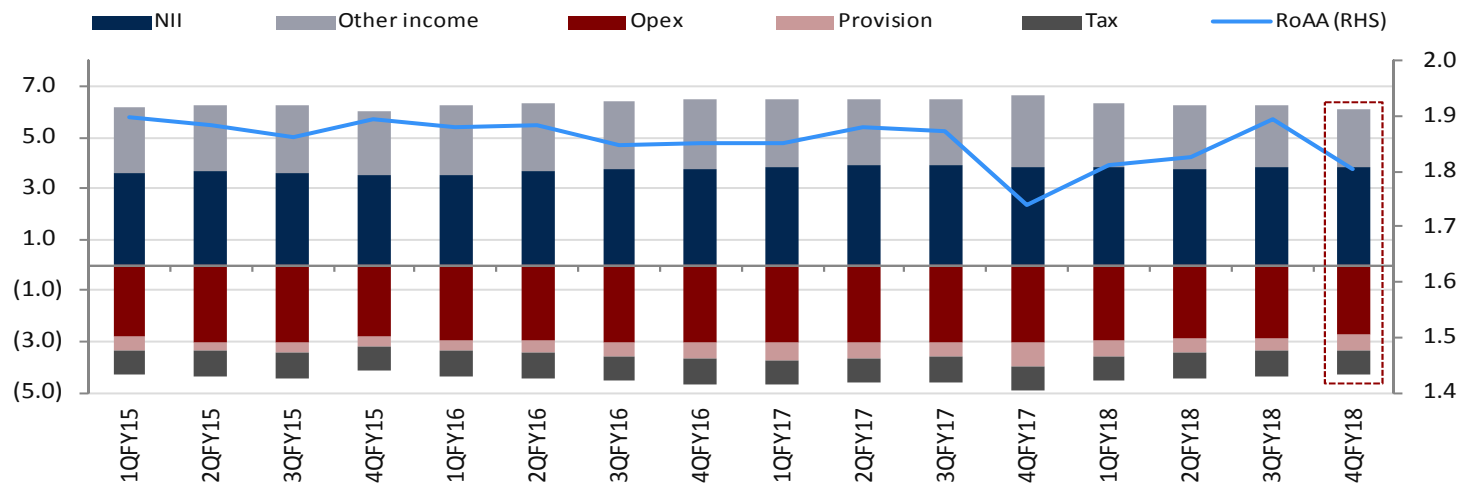
Source: Bank, HDFC sec Inst Research

### Divergence in Asset Classification and Provisioning for NPAs for FY17

| Rs bn  | HDFCB       | AXSB        | YES          | IIB          | SBIN        | BOI           | UNBK         |
|--|-------------|-------------|--------------|--------------|-------------|---------------|--------------|
| Reported Gross NPAs as on FY17               | 58.9        | 212.8       | 20.2         | 10.5         | 1,123.4     | 520.5         | 337.1        |
| Gross NPAs as on FY17 as assessed by RBI     | 79.4        | 269.1       | 83.7         | 24.1         | 1,355.8     | 661.0         | 365.6        |
| Divergence in Gross NPAs                     | 20.5        | 56.3        | 63.6         | 13.5         | 232.4       | 140.6         | 28.5         |
| <b>Divergence in GNPA (%)</b>                | <b>34.9</b> | <b>26.5</b> | <b>314.8</b> | <b>128.0</b> | <b>20.7</b> | <b>27.0</b>   | <b>8.5</b>   |
| Reported Net NPAs as on FY17                 | 18.4        | 86.3        | 10.7         | 4.4          | 582.8       | 253.1         | 188.3        |
| Net NPAs as on FY17 as assessed by RBI       | 31.0        | 129.4       | 58.9         | 14.4         | 758.0       | 350.1         | 206.7        |
| Divergence in Net NPAs                       | 12.6        | 43.2        | 48.2         | 10.0         | 175.2       | 97.1          | 18.4         |
| <b>Divergence in NNPA (%)</b>                | <b>68.2</b> | <b>50.0</b> | <b>449.4</b> | <b>228.2</b> | <b>30.1</b> | <b>38.4</b>   | <b>9.7</b>   |
| Reported NPA Provisions as on FY17           | 40.4        | 122.1       | 9.5          | 6.2          | 540.7       | 267.4         | 143.8        |
| NPA Provisions as on FY17 as assessed by RBI | 48.4        | 135.2       | 24.8         | 9.7          | 597.9       | 310.9         | 153.9        |
| Divergence in provisioning                   | 7.9         | 13.2        | 15.4         | 3.5          | 57.2        | 43.5          | 10.1         |
| <b>Divergence in Provisions (%)</b>          | <b>19.6</b> | <b>10.8</b> | <b>162.3</b> | <b>56.7</b>  | <b>10.6</b> | <b>16.3</b>   | <b>7.1</b>   |
| Reported PAT for FY17                        | 145.5       | 36.8        | 33.3         | 28.7         | 104.8       | -15.6         | 5.6          |
| Adjusted (notional) PAT for FY17             | 140.3       | 27.9        | 23.2         | 26.4         | 67.4        | -62.5         | -3.7         |
| Divergence in PAT                            | 5.2         | 8.9         | 10.1         | 2.3          | 37.4        | 46.9          | 9.3          |
| <b>Divergence in PAT (%)</b>                 | <b>3.6</b>  | <b>24.1</b> | <b>30.4</b>  | <b>8.0</b>   | <b>35.7</b> | <b>-301.0</b> | <b>167.0</b> |

Source: Bank, HDFC sec Inst Research

### RoAA Dips As Provisions Rise



Source: Bank, HDFC sec Inst Research

### Peer Valuation

| BANK       | Mcap (Rs bn) | CMP (Rs)     | Rating     | TP (Rs)      | ABV (Rs)   |            |            | P/E (x)     |             |             | P/ABV (x)   |             |             | ROAE (%)    |             |             | ROAA (%)    |             |             |
|------------|--------------|--------------|------------|--------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|            |              |              |            |              | FY18E      | FY19E      | FY20E      | FY18E       | FY19E       | FY20E       | FY18E       | FY19E       | FY20E       | FY18E       | FY19E       | FY20E       | FY18E       | FY19E       | FY20E       |
| KMB #      | 2,196        | 1,154        | BUY        | 1,291        | 181        | 205        | 234        | 44.4        | 34.9        | 28.0        | 5.36        | 4.62        | 3.91        | 13.2        | 13.4        | 14.2        | 1.77        | 1.84        | 1.85        |
| ICICIBC #  | 1,860        | 290          | BUY        | 363          | 100        | 125        | 145        | 19.8        | 12.2        | 8.7         | 1.98        | 1.44        | 1.13        | 7.0         | 9.9         | 10.0        | 0.80        | 1.07        | 1.22        |
| AXSB       | 1,342        | 513          | NEU        | 587          | 211        | 260        | 293        | 42.2        | 18.9        | 13.3        | 2.43        | 1.97        | 1.75        | 5.1         | 9.9         | 12.7        | 0.49        | 0.96        | 1.18        |
| <b>IIB</b> | <b>1,100</b> | <b>1,833</b> | <b>BUY</b> | <b>1,966</b> | <b>379</b> | <b>443</b> | <b>524</b> | <b>30.5</b> | <b>24.6</b> | <b>19.5</b> | <b>4.84</b> | <b>4.14</b> | <b>3.50</b> | <b>16.5</b> | <b>17.6</b> | <b>19.0</b> | <b>1.80</b> | <b>1.79</b> | <b>1.82</b> |
| FB         | 190          | 98           | BUY        | 127          | 57         | 63         | 71         | 19.0        | 15.2        | 11.9        | 1.72        | 1.56        | 1.39        | 9.5         | 9.9         | 11.6        | 0.80        | 0.85        | 0.93        |
| CUB        | 120          | 181          | BUY        | 212          | 56         | 66         | 77         | 19.6        | 17.2        | 14.8        | 3.23        | 2.74        | 2.35        | 15.8        | 15.5        | 15.5        | 1.64        | 1.63        | 1.58        |
| KVB        | 78           | 107          | BUY        | 157          | 63         | 71         | 79         | 20.9        | 15.6        | 8.8         | 1.71        | 1.52        | 1.36        | 6.6         | 7.8         | 13.3        | 0.57        | 0.68        | 1.08        |
| DCBB       | 62           | 199          | BUY        | 216          | 78         | 88         | 98         | 25.0        | 19.3        | 15.7        | 2.54        | 2.27        | 2.03        | 9.8         | 10.8        | 12.0        | 0.90        | 0.95        | 0.97        |
| SBIN #     | 2204         | 246          | BUY        | 333          | 80         | 137        | 175        | -104.8      | 10.5        | 5.3         | 1.78        | 1.03        | 0.81        | -0.6        | 5.4         | 10.0        | -0.04       | 0.35        | 0.64        |
| BOB        | 336          | 145          | BUY        | 192          | 65         | 109        | 148        | 49.9        | 17.7        | 9.4         | 2.25        | 1.34        | 0.98        | 2.0         | 5.0         | 8.9         | 0.11        | 0.29        | 0.51        |
| AUSFB      | 186          | 651          | NEU        | 585          | 73         | 88         | 104        | 61.1        | 45.8        | 36.2        | 8.86        | 7.38        | 6.26        | 14.3        | 16.5        | 17.9        | 2.04        | 2.03        | 1.89        |
| Equitas    | 52           | 153          | NEU        | 165          | 64         | 66         | 72         | 180.1       | 41.0        | 20.7        | 2.39        | 2.30        | 2.11        | 1.3         | 5.5         | 10.0        | 0.28        | 1.01        | 1.33        |
| Ujjivan    | 47           | 394          | BUY        | 440          | 144        | 158        | 176        | NA          | 28.8        | 20.7        | 2.73        | 2.50        | 2.24        | -0.2        | 9.0         | 11.4        | -0.15       | 1.55        | 1.75        |

Source: Company, HDFC sec Inst Research, # Adjusted for subsidiaries value



**Income Statement**

| (Rs mn)                                 | FY16          | FY17           | FY18P          | FY19E          | FY20E          |
|---|---------------|----------------|----------------|----------------|----------------|
| Interest Earned                         | 118,717       | 144,057        | 172,808        | 221,006        | 280,173        |
| Interest Expended                       | 73,552        | 83,431         | 97,833         | 127,837        | 161,602        |
| <b>Net Interest Income</b>              | <b>45,166</b> | <b>60,626</b>  | <b>74,974</b>  | <b>93,169</b>  | <b>118,571</b> |
| <b>Other Income</b>                     | <b>32,969</b> | <b>41,715</b>  | <b>47,498</b>  | <b>58,362</b>  | <b>70,154</b>  |
| <i>Fee Income (CEB)</i>                 | 22,315        | 28,953         | 34,835         | 44,327         | 54,552         |
| <i>Treasury Income</i>                  | 1,453         | 2,769          | 1,800          | 1,550          | 1,250          |
| <b>Total Income</b>                     | <b>78,135</b> | <b>102,341</b> | <b>122,473</b> | <b>151,531</b> | <b>188,725</b> |
| <b>Total Operating Exp</b>              | <b>36,721</b> | <b>47,831</b>  | <b>55,914</b>  | <b>69,920</b>  | <b>85,875</b>  |
| <i>Employee Expense</i>                 | 12,361        | 15,210         | 17,807         | 21,877         | 26,758         |
| <b>PPOP</b>                             | <b>41,414</b> | <b>54,510</b>  | <b>66,558</b>  | <b>81,611</b>  | <b>102,850</b> |
| Provisions & Contingencies              | 6,722         | 10,913         | 11,754         | 13,619         | 16,912         |
| <i>Prov. For NPAs (Incl. Std Prov.)</i> | 5,015         | 7,048          | 9,010          | 11,455         | 13,901         |
| <b>PBT</b>                              | <b>34,693</b> | <b>43,597</b>  | <b>54,804</b>  | <b>67,993</b>  | <b>85,938</b>  |
| Provision for Tax                       | 11,828        | 14,918         | 18,747         | 23,259         | 29,518         |
| <b>PAT</b>                              | <b>22,864</b> | <b>28,679</b>  | <b>36,057</b>  | <b>44,733</b>  | <b>56,420</b>  |

Source: Bank, HDFC sec Inst Research,

**Balance Sheet**

| (Rs mn)                     | FY16             | FY17             | FY18P            | FY19E            | FY20E            |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>SOURCES OF FUNDS</b>     |                  |                  |                  |                  |                  |
| Share Capital               | 5,950            | 5,981            | 6,002            | 6,002            | 6,002            |
| Reserves                    | 171,010          | 200,480          | 232,414          | 270,840          | 319,305          |
| <b>Shareholders' Funds</b>  | <b>176,960</b>   | <b>206,461</b>   | <b>238,416</b>   | <b>276,842</b>   | <b>325,307</b>   |
| <i>Savings</i>              | 172,462          | 270,372          | 458,880          | 588,705          | 761,637          |
| <i>Current</i>              | 154,780          | 196,088          | 208,410          | 289,824          | 342,354          |
| <i>Term Deposit</i>         | 602,761          | 799,262          | 849,102          | 1,062,130        | 1,324,980        |
| <b>Total Deposits</b>       | <b>930,003</b>   | <b>1,265,722</b> | <b>1,516,392</b> | <b>1,940,658</b> | <b>2,428,971</b> |
| Borrowings                  | 249,959          | 224,537          | 382,891          | 462,824          | 563,734          |
| Other Liabilities           | 72,048           | 89,764           | 78,563           | 89,171           | 98,835           |
| <b>Total Liabilities</b>    | <b>1,428,970</b> | <b>1,786,484</b> | <b>2,216,262</b> | <b>2,769,495</b> | <b>3,416,848</b> |
| <b>APPLICATION OF FUNDS</b> |                  |                  |                  |                  |                  |
| Cash & Bank Balance         | 101,119          | 186,283          | 132,159          | 189,813          | 256,069          |
| Investments                 | 340,543          | 367,021          | 500,767          | 601,992          | 723,351          |
| <i>G-Secs</i>               | 281,080          | 314,523          | 379,098          | 465,758          | 570,808          |
| Advances                    | 884,193          | 1,130,805        | 1,449,537        | 1,833,922        | 2,283,233        |
| Fixed Assets                | 12,553           | 13,352           | 13,388           | 14,057           | 14,760           |
| Other Assets                | 90,561           | 89,023           | 120,412          | 129,711          | 139,435          |
| <b>Total Assets</b>         | <b>1,428,970</b> | <b>1,786,484</b> | <b>2,216,262</b> | <b>2,769,495</b> | <b>3,416,848</b> |

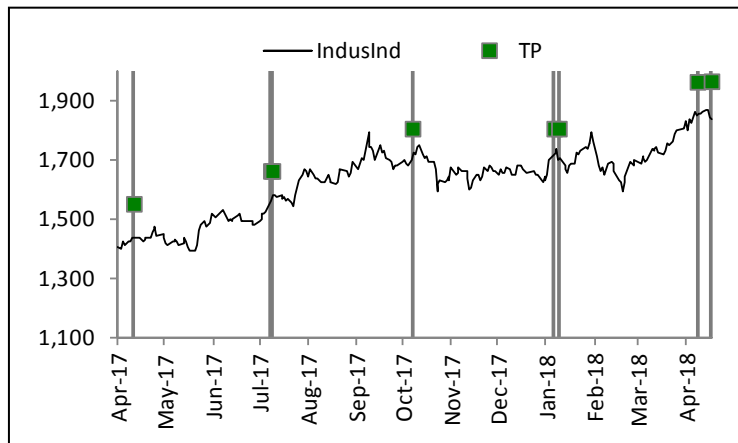
Source: Bank, HDFC sec Inst Research,

## Key Ratios

|                                  | FY16  | FY17  | FY18P | FY19E | FY20E |
|----------------------------------|-------|-------|-------|-------|-------|
| <b>VALUATION RATIOS</b>          |       |       |       |       |       |
| EPS (Rs)                         | 38.4  | 47.9  | 60.1  | 74.5  | 94.0  |
| Earnings Growth (%)              | 27.5  | 25.4  | 25.7  | 24.1  | 26.1  |
| BVPS (Rs)                        | 290.8 | 338.7 | 391.2 | 455.2 | 535.9 |
| Adj. BVPS (Rs)                   | 285.4 | 331.3 | 378.8 | 443.2 | 524.2 |
| DPS (Rs)                         | 4.5   | 6.0   | 7.5   | 8.9   | 11.3  |
| ROAA (%)                         | 1.80  | 1.78  | 1.80  | 1.79  | 1.82  |
| ROAE (%)                         | 16.6  | 15.3  | 16.5  | 17.6  | 19.0  |
| P/E (x)                          | 47.7  | 38.2  | 30.5  | 24.6  | 19.5  |
| P/ABV (x)                        | 6.42  | 5.53  | 4.84  | 4.14  | 3.50  |
| P/PPOP (x)                       | 26.3  | 20.1  | 16.5  | 13.5  | 10.7  |
| Dividend Yield (%)               | 0.2   | 0.3   | 0.4   | 0.5   | 0.6   |
| <b>PROFITABILITY</b>             |       |       |       |       |       |
| Yield On Advances (%)            | 11.76 | 11.39 | 10.62 | 10.86 | 11.09 |
| Yield On Investment (%)          | 7.26  | 6.97  | 7.09  | 6.92  | 6.80  |
| Cost Of Funds (%)                | 6.91  | 6.25  | 5.77  | 5.94  | 5.99  |
| Cost Of Deposits (%)             | 6.83  | 6.31  | 5.87  | 5.90  | 5.93  |
| Core Spread (%)                  | 4.93  | 5.08  | 4.75  | 4.96  | 5.16  |
| NIM (%)                          | 3.99  | 4.20  | 4.19  | 4.12  | 4.16  |
| <b>OPERATING EFFICIENCY</b>      |       |       |       |       |       |
| Cost/Avg. Asset Ratio (%)        | 2.9   | 3.0   | 2.8   | 2.8   | 2.8   |
| Cost-Income Ratio (Ex. Treasury) | 47.9  | 48.0  | 46.3  | 46.6  | 45.8  |
| <b>BALANCE SHEET STRUCTURE</b>   |       |       |       |       |       |
| Loan Growth (%)                  | 28.5  | 27.9  | 28.2  | 26.5  | 24.5  |
| Deposit Growth (%)               | 25.4  | 36.1  | 19.8  | 28.0  | 25.2  |
| C/D Ratio (%)                    | 95.1  | 89.3  | 95.6  | 94.5  | 94.0  |
| Equity/Assets (%)                | 12.4  | 11.6  | 10.8  | 10.0  | 9.5   |
| Equity/Advances (%)              | 20.0  | 18.3  | 16.4  | 15.1  | 14.2  |
| CASA (%)                         | 35.2  | 36.9  | 44.0  | 45.3  | 45.5  |
| Capital Adequacy Ratio (CAR, %)  | 15.5  | 15.3  | 15.0  | 13.5  | 12.4  |
| W/w Tier I CAR (%)               | 14.9  | 14.7  | 14.6  | 13.1  | 12.1  |

|                            | FY16         | FY17         | FY18P        | FY19E        | FY20E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>ASSET QUALITY</b>       |              |              |              |              |              |
| Gross NPLs (Rs mn)         | 7,768        | 10,549       | 17,049       | 19,606       | 22,840       |
| Net NPLs (Rs mn)           | 3,218        | 4,389        | 7,457        | 7,192        | 7,077        |
| Gross NPLs (%)             | 0.88         | 0.93         | 1.18         | 1.07         | 1.00         |
| Net NPLs (%)               | 0.36         | 0.39         | 0.51         | 0.39         | 0.31         |
| Slippages (%)              | 1.08%        | 1.42%        | 1.84%        | 1.35%        | 1.30%        |
| Coverage Ratio (%)         | 58.6         | 58.4         | 56.3         | 63.3         | 69.0         |
| Provision/Avg. Loans (%)   | 0.6          | 0.7          | 0.7          | 0.7          | 0.7          |
| <b>ROAA TREE</b>           |              |              |              |              |              |
| Net Interest Income        | 3.55%        | 3.77%        | 3.75%        | 3.74%        | 3.83%        |
| Non Interest Income        | 2.59%        | 2.59%        | 2.37%        | 2.34%        | 2.27%        |
| <i>Treasury Income</i>     | <i>0.11%</i> | <i>0.17%</i> | <i>0.09%</i> | <i>0.06%</i> | <i>0.04%</i> |
| Operating Cost             | 2.88%        | 2.98%        | 2.79%        | 2.80%        | 2.78%        |
| Provisions                 | 0.53%        | 0.68%        | 0.59%        | 0.55%        | 0.55%        |
| <i>Provisions for NPAs</i> | <i>0.39%</i> | <i>0.44%</i> | <i>0.45%</i> | <i>0.46%</i> | <i>0.45%</i> |
| Tax                        | 0.93%        | 0.93%        | 0.94%        | 0.93%        | 0.95%        |
| ROAA                       | 1.80%        | 1.78%        | 1.80%        | 1.79%        | 1.82%        |
| Leverage (x)               | 9.2          | 8.6          | 9.2          | 9.8          | 10.4         |
| ROAE                       | 16.60%       | 15.27%       | 16.49%       | 17.61%       | 18.97%       |

Source: Bank, HDFC sec Inst Research,

**RECOMMENDATION HISTORY**


| Date      | CMP   | Reco | Target |
|-----------|-------|------|--------|
| 13-Apr-17 | 1,438 | BUY  | 1,552  |
| 10-Jul-17 | 1,524 | BUY  | 1,663  |
| 12-Jul-17 | 1,561 | BUY  | 1,663  |
| 9-Oct-17  | 1,683 | BUY  | 1,806  |
| 9-Jan-18  | 1,698 | BUY  | 1,882  |
| 11-Jan-18 | 1,700 | BUY  | 1,889  |
| 10-Apr-18 | 1,848 | BUY  | 1,964  |
| 19-Apr-18 | 1,833 | BUY  | 1,966  |

**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

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