

HDFC Bank (HDFBAN)

₹ 1535

Consistent performance; focus on all levers....

- PAT increased 18.3% YoY to ₹ 3990 crore, led by a higher topline
- NII growth picked up 21.5% YoY, led by healthy credit growth at 19.4% YoY and steady margins. Growth in both domestic retail (up 27% YoY) and wholesale book (up 24% YoY) remained higher than systemic growth
- On the asset quality front, net GNPA accretion increased 12% QoQ (~3% in Q2FY17, Q3FY17) primarily on account of exposure, which was not classified NPA in previous quarter as per RBI dispensation. Overall asset quality continued to remain resilient with GNPA at 1.5% (+45 bps QoQ) and NNPA at 0.33% (+1 bps QoQ)
- PPP came above our estimate at ₹ 7279 crore, up 27% YoY, led by healthy growth in revenue and improvement in CI ratio

Play not on scale but core earnings-strategy to stay with strong retail book

HDFC Bank, India's second largest private bank, has grown its balance sheet at 23% CAGR to ₹ 400000 crore in FY07-13 maintaining its profit growth of 30% CAGR to ₹ 6726 crore. PAT growth had moderated to 20% at ₹ 12297 crore in FY16. Going forward, we expect PAT to grow at 21% CAGR in FY17-19E to ₹ 21567 crore. It has 52.7% retail (₹ 283666 crore) and 43.7% wholesale loan book in loan book of ₹ 254976 crore as on FY17. Within retail (27% YoY growth), personal loans, credit cards and home loans grew higher at 34%, 26% and 20%, respectively. Retail has 22% in auto, 7% in CV/CE, 18% personal loans, 14% home loans (acquired) and 13% in business banking. It enjoys largest market share in credit cards in the industry at ₹ 25995 crore book, which generally fetches higher margins and returns for a bank. Its acquisition of Centurion Bank in FY08 also helped strengthen its retail book. We expect it to continue with higher credit growth than industry at 19.2% over FY17-19E to ₹ 788437 crore with profit sustaining a similar trend with 21.8% growth.

Rural expansion drive to go long way, operating leverage to be seen...

We observe HDFC Bank has strategised to dig deep in the rural belt to expand markets with >900 branches opened in the last two years and >600 in rural areas of Punjab, Gujarat and other states. The bank has a strong liability franchise with CASA of 48% (in FY05-17) and retail term deposit comprising ~85% of total deposit of ₹ 554568 crore as on FY17. CASA and fee based income from cross-selling continue to grow on a rising presence in remote locations. This led cost of funds to be less volatile, thereby enabling lucrative NIM >4% consistently. We expect NIM at ~4.2-4.5% in FY17-19E with focus on the high yield retail segment.

Asset quality contained - GNPA at 1% due to seasoned credit book

GNPA and NNPA ratios have been stable around 1-1.5% in the last 25 quarters. Retail NPA had risen just once in the FY08 crisis to 2%. However, being a seasoned portfolio, we factor GNPA and NNPA to be stable at ~1% (₹ 7765 crore) and 0.3% (₹ 2456 crore), respectively, by FY19E.

Fundamentals intact; price for consistency to continue; maintain BUY

Considering the healthy balance sheet growth and superior quality, the bank is well placed to deliver consistently with margin leadership and robust return ratios. Therefore, the bank remains a portfolio stock with premium valuation to continue. We have factored in 18.6% CAGR in NII, 21.8% in PAT in FY17-19E. We revise our target price upwards at ₹ 1700 (earlier ₹ 1500) valuing the stock at 4x FY19E ABV. We maintain **BUY** rating. We believe investors would continue to prefer high quality retail private banks owing to their strong visibility & consistency in earnings.

Rating matrix	
Rating	Buy
Target	₹ 1700
Target Period	12 months
Potential Upside	11%

What's Changed?	
Target	Changed from ₹ 1500 to ₹ 1700
EPS FY18E	Changed from ₹ 70.6 to ₹ 69.2
EPS FY19E	Changed from ₹ 86.2 to ₹ 84.2
Rating	Unchanged

Quarterly Performance					
	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
NII	9,055.1	7,453.3	21.5	8,309.1	9.0
Oth. income	3,446.3	2,865.9	20.3	3,142.7	9.7
PPP	7,279.4	5,734.9	26.9	6,609.3	10.1
PAT	3,990.1	3,374.2	18.3	3,865.3	3.2

Key Financials				
₹ Crore	FY16	FY17E	FY18E	FY19E
NII	27,590	33,139	39,720	46,608
PPP	21,364	25,732	30,253	36,242
PAT	12,297	14,549	17,720	21,567

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	31.6	27.1	22.2	18.3
Target P/E	30.8	26.4	21.7	17.8
P/ABV	5.4	4.5	4.0	3.6
Target P/ABV	5.3	4.4	3.9	3.5
RoE	18.2	17.9	18.7	20.3
RoA	1.9	1.9	1.9	2.0

Stock data	
Market Capitalisation	₹ 375925 crore
GNPA (Q4FY17)	₹ 5885 crore
NNPA (Q4FY17)	₹ 1844 crore
NIM %(Q4FY17)	4.3
52 week H/L	1478/1085
Networth (Q2FY17)	₹ 80557 crore
Face value	₹ 2
DII holding (%)	13.0
FII holding (%)	42.1

Price performance (%)				
Return %	1M	3M	6M	12M
bank	2.4	21.8	12.7	28.2
HDFC Bank	3.9	21.0	17.8	37.2
Axis Bank	-0.4	7.9	-7.6	3.9

Research Analyst	
Kajal Gandhi	kajal.gandhi@icicisecurities.com
Vishal Narnolia	vishal.narnolia@icicisecurities.com
Vasant Lohiya	vasant.lohiya@icicisecurities.com

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
NII	9,055	8,845	7,453	21.5	8,309	9.0	NII growth was led by loan growth of 19.4% YoY and margins of 4.3%
NIM (%)	4.3	400.0	4.3	0 bps	4.1	20 bps	NIM improved ~20 bps QoQ led by higher CASA accretion. The management guidance for NIM is in the range of 4.0-4.3%
Other Income	3,446	3,170	2,866	20.3	3,143	9.7	Healthy traction in fee income of 16% YoY, led growth in other income. Treasury gains were strong at ₹ 180 crore
Net Total Income	12,501	12,015	10,319	21.1	11,452	9.2	
Staff cost	1,553	1,782	1,498	3.7	1,689	-8.1	
Other Operating Expenses	3,669	3,327	3,086	18.9	3,154	16.3	
PPP	7,279.4	6,906.2	5,734.9	26.9	6,609.3	10.1	
Provision	1,261.8	722.9	662.5	90.5	715.8	76.3	Provisioning came in higher led by exposure, which was classified as NPA in Q4FY17 as per RBI dispensation of providing additional 60/90 days
PBT	6,017.6	6,183.3	5,072.5	18.6	5,893.5	2.1	
Tax	2,027.5	2,139.4	1,698.2	19.4	2,028.1	0.0	
PAT	3,990.1	4,043.9	3,374.2	18.3	3,865.3	3.2	Though lower than historical trends, PAT growth inched up QoQ

Key Metrics

GNPA	5,885.7	5,389.2	4,392.8	34.0	5,232.3	12.5	One-time surge in NPA seen. However, asset quality remains better than peers
NNPA	1,844.0	1,642.5	1,320.4	39.7	1,564.3	17.9	
Total Restructured assets	494.4	543.9	464.6	6.4	494.4	0.0	
Advances	554,568	544,548	464,594	19.4	495,043	12.0	Advance growth led by both retail and corporate book
Deposits	643,640	656,860	546,424	17.8	634,705	1.4	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	38,420.7	39,720.1	3.4	45,161.2	46,607.9	3.2
Pre Provision Profit	30,159.7	30,253.0	0.3	36,313.6	36,241.7	-0.2
NIM calculated (%)	4.5	4.5	-4 bps	4.5	4.5	3 bps
PAT	17,857.8	17,720.1	-0.8	21,784.8	21,566.6	-1.0
ABV (₹)	366.0	381.8	4.3	408.9	428.5	4.8

Source: Company, ICICIdirect.com Research

Assumptions

	Current			Earlier			
	FY16E	FY17E	FY18E	FY19E	FY18E	FY19E	
Credit growth (%)	27.1	19.4	18.5	20.0	20.0	22.5	
Deposit Growth (%)	21.2	17.8	18.0	19.0	21.3	21.0	
CASA ratio (%)	43.2	48.0	48.0	48.4	43.0	43.5	CASA ratio has been revised upwards as per demonetisation accretion
NIM Calculated (%)	4.5	4.5	4.5	4.5	4.5	4.5	
Cost to income ratio (%)	44.3	43.4	44.0	43.0	43.0	41.8	
GNPA (₹ crore)	4,391.4	5,886.0	6,740.1	7,765.1	6,327.5	8,725.4	
NNPA (₹ crore)	1,318.9	1,844.8	1,909.5	2,455.9	2,184.9	3,969.8	
Slippage ratio (%)	1.2	1.1	1.0	1.0	1.0	1.0	
Credit cost (%)	0.6	0.6	0.5	0.5	0.5	0.4	

Source: Company, ICICIdirect.com Research

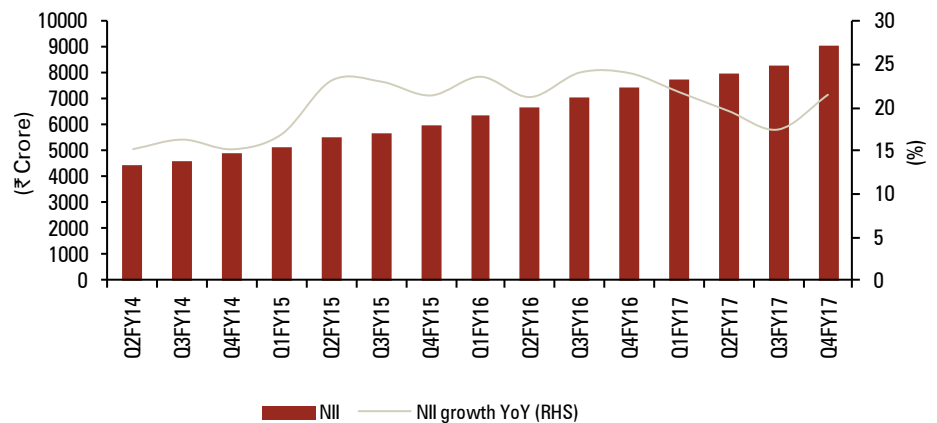
Company Analysis

Business, NII growth to remain relatively healthy...

HDFC Bank is largely a retail bank and earns majority of revenues and income from the same. Retail and corporate constitute ~52.7% and 43.7%, respectively, in its ₹ 554568 crore credit portfolio. Retail includes lending like all vehicle financing, tractors, construction equipment, credit cards, personal loans, home loans, etc. These require a large branch network, strong customer interface and better underwriting skills. Historically, the bank has maintained 50% in both segments. Credit has grown at 25% CAGR in FY09-13 led by retail and witnessed 26% growth in FY14 due to FCNR-B deposits and related lending. We expect credit to grow at 19.2% CAGR to ₹ 788437 crore by FY19E.

Net interest income has grown at 23% CAGR in FY10-13 and at 21% CAGR in FY13-17. We expect growth to moderate but still remain healthy at 18.6% in FY17-19E at ₹ 46608 crore.

Exhibit 1: NII growth maintained healthy at 21.5% YoY in Q4FY17



Going ahead, the management expects credit growth to remain higher than system growth

Source: Company, ICICIdirect.com Research

After moderation seen in Q3FY17, owing to demonetisation, credit growth inched up at 19.4% (higher than our estimate of 17.2% YoY) to ₹ 554568 crore, led by higher than systemic growth in both domestic retail (up 27% YoY) and wholesale book (up 24% YoY). Among retail, unsecured loans traction continued to remain strong with growth of 34.6% YoY in personal loans and 26.7% YoY in credit cards. On the secured side, the CV book continued with healthy growth at 31% YoY while the home loan book grew 20.5% YoY. The management indicated that the traction in unsecured portfolio would continue.

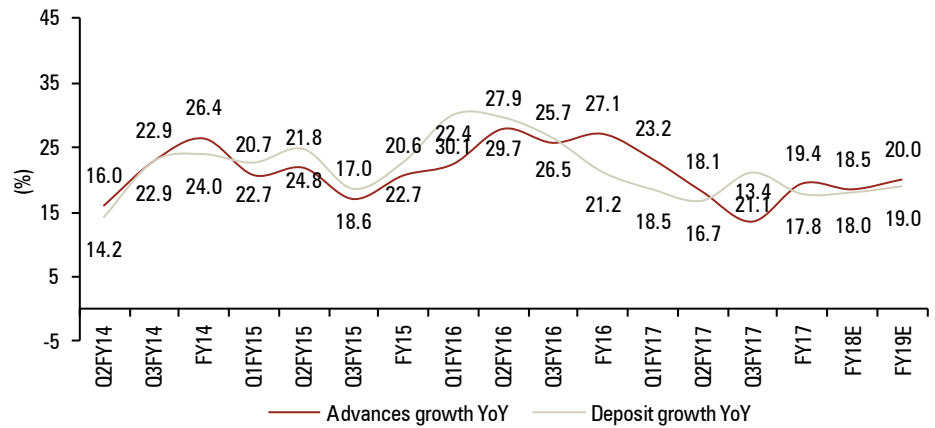
Exhibit 2: Break-up of retail credit

₹ crore	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Auto	40,528	43,458	46,009	49,755	50,199	52,187	56,483	58,449	62,052
CVCE	12,789	13,389	14,799	14,950	14,688	15,329	16,598	17,563	19,221
Two Wheelers	4,157	4,393	4,730	5,213	5,380	5,549	5,823	6,114	6,290
Personal Loans	25,820	28,830	31,881	35,071	37,200	40,493	44,706	46,454	50,067
Business Banking	18,826	24,016	27,288	26,936	25,290	25,596	31,516	32,129	36,235
Loans against Securities	1,353	980	1,078	1,129	1,240	1,206	1,260	1,271	1,461
Credit Cards	16,154	16,865	18,000	19,689	20,520	21,255	21,336	23,673	25,995
Home Loans	24,125	26,888	28,483	28,419	31,844	33,590	33,559	35,408	38,365
Others	29,090	28,446	32,187	33,710	37,757	37,855	41,128	40,025	43,980
Total	172,842	187,265	204,455	214,872	224,118	233,060	252,409	261,086	283,666

Source: Company quarterly press release, ICICIdirect.com Research

HDFC Bank has close to ~40% market share in credit cards – o/s credit basis (₹ 25995 crore). About 65% of HDFC Bank's credit card portfolio is from cross-selling to existing customers. Incrementally, growth in personal loans, home loans and auto has remained high during the year. In the personal loan segment, ~50% of borrowers are HDFC Bank's existing customers. We expect growth in the retail segment to continue at >20% as it enters strongly in rural areas.

Exhibit 3: Both credit, deposit growth above industry



Source: Company, ICICIdirect.com Research

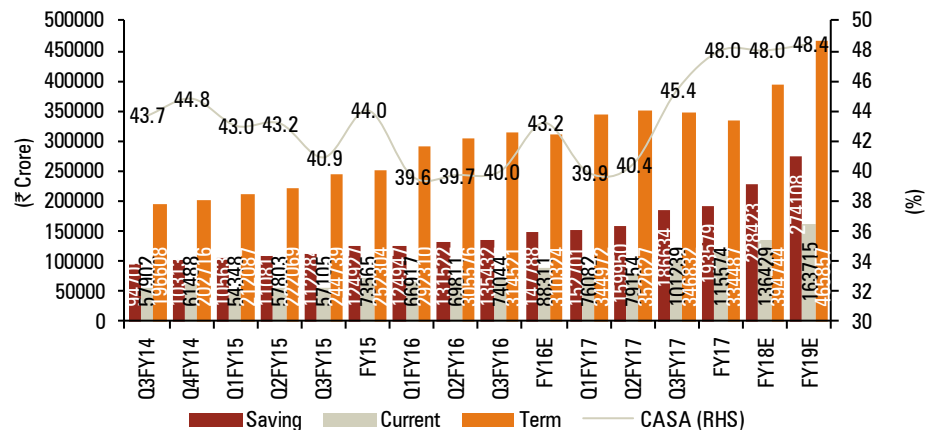
Strong liability franchise

Deposits grew higher than credit at 22.7% YoY in FY15 while five year CAGR was around 16%. In FY16-17, it surged 23% YoY to ₹ 554568 crore. The CASA ratio improved from ~44% in FY15 to ~48% in FY17, an increase of ~500 bps led by accretion of low cost deposits in normal course as well as demonetisation drive. CASA has remained the highlight of deposit even in the past with consistent balance, second largest at ₹ 236311 crore as on FY16 post SBI on an absolute basis. In Q4FY17, low cost deposit continued to witness a surge led by demonetisation, which has led CASA ratio to increase ~300 bps QoQ to 48%.

During FY14, the bank adequately utilised RBI's SWAP facility i.e. converting FCNR (B) deposits to rupees at a concessional rate. Its deposits then grew 24% YoY to ₹ 367000 crore, including FCNR (B) deposits of US\$3.4 billion as on FY14. Post adjusting for such deposits, traction still remained above industry at 16.9% YoY.

Exhibit 4: CASA ratio increase owing to strong inflow led by demonetisation

Higher growth in low cost deposit led by demonetisation during the quarter

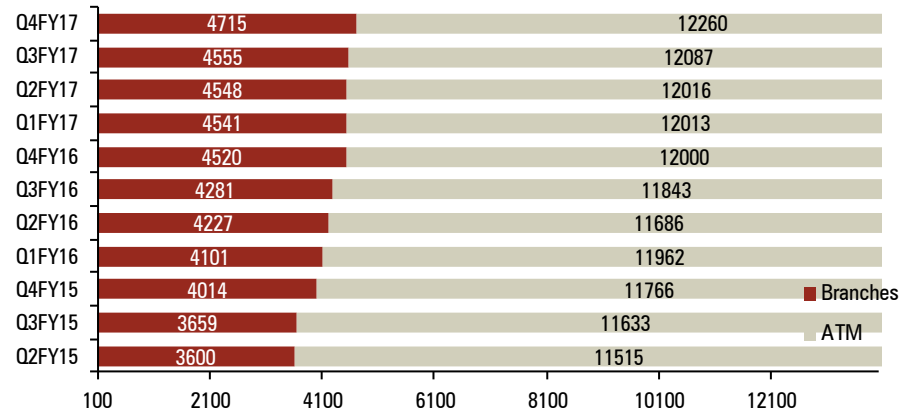


Source: Company quarterly press release, ICICIdirect.com Research

HDFC Bank has opened close to ~900 branches in the last two years while close to 230 branches were opened in FY14, which were in unbanked

areas. The cost of these branches is relatively lower than other locations. They need two to three years to break even. Fresh additions are seen being limited to around 200 branches per year.

Exhibit 5: Branch, ATM additions continue with incremental focus on rural to boost CASA

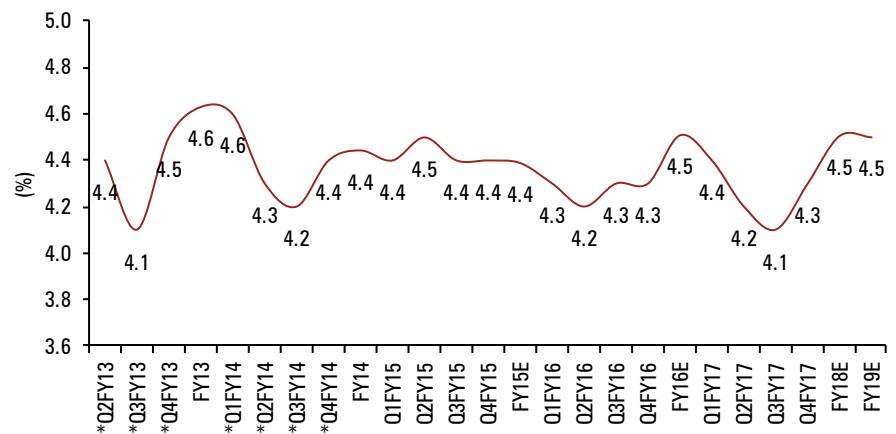


Source: Company quarterly press release and annual report, ICICIdirect.com Research

NIMs sustain above 4%, expected to continue

Led by stable asset quality, NII remains constant with no reversals. Accordingly, reported NIM has remained stable around 4.2-4.4%. We expect this stability to remain as retail loans continue to be in the high interest segment. Growth is mainly happening in the same for all banks. Rising home loans from HDFC can impact margin expansion. However, incremental exposure to the high yield retail segment is expected to support margins to remain stable.

Exhibit 6: NIM one of the highest; consistently maintained...

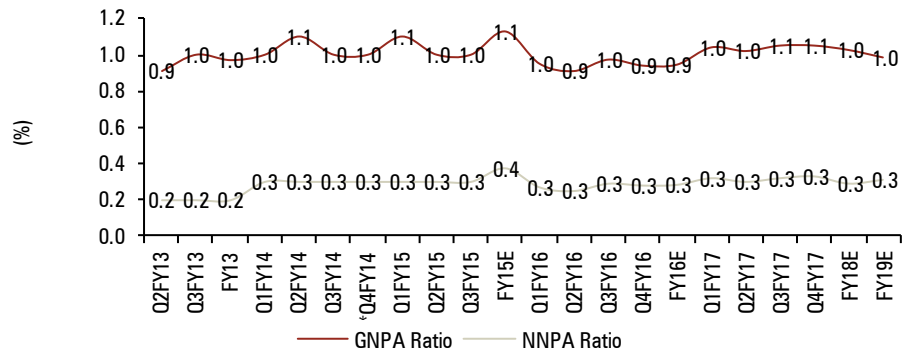


Source: Company quarterly press release, ICICIdirect.com Research

* Adjusted for re-classification, FY13, FY14, FY15, FY16, FY17 and FY18E are calculated

Seasoned portfolio – NPA under check

Exhibit 7: Asset quality under control

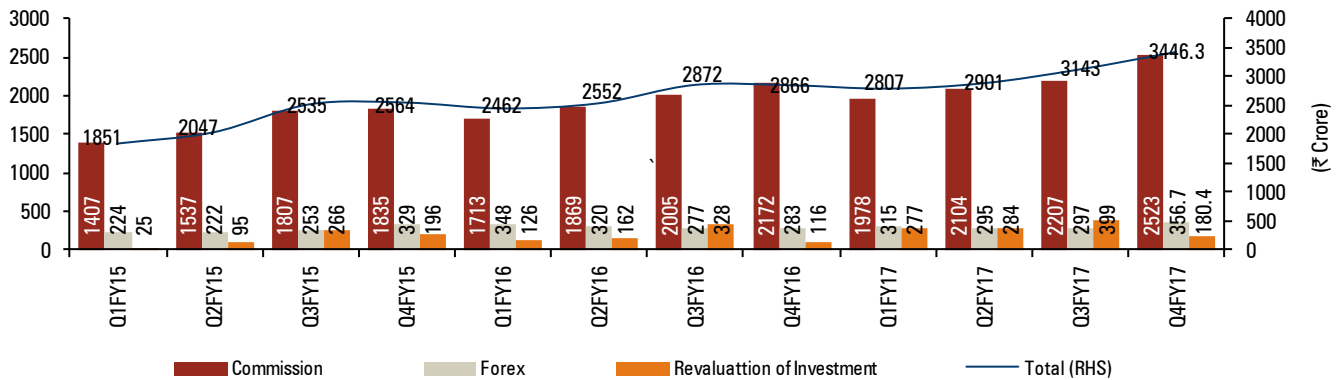


Source: Company quarterly press release and annual report, ICICIdirect.com Research

With retail and working capital portfolio, we do not expect the bank to report large RA in future. Further, there is no large pipeline of assets under 5/25 scheme. We expect GNPA and NNPA to rise gradually in line with growth to ₹ 7765 crore and ₹ 2456 crore, respectively, leading both ratios to stay around ~1% and 0.3%, respectively, by FY19E.

Non-interest income steady; core income growth at 16% YoY

Exhibit 8: Non interest income contributes ~30% to income



Source: Company, ICICIdirect.com Research

Other income has formed 29-30% of net total income in the last decade. On occasions, growth has been boosted by profit on sale of securities or impacted due to volatile yields. However, fee based income continues to grow over the years. In the past, a knock due to a reduction in insurance sales commission and MF distribution fee by their respective regulators has impacted all banks on core distribution fee.

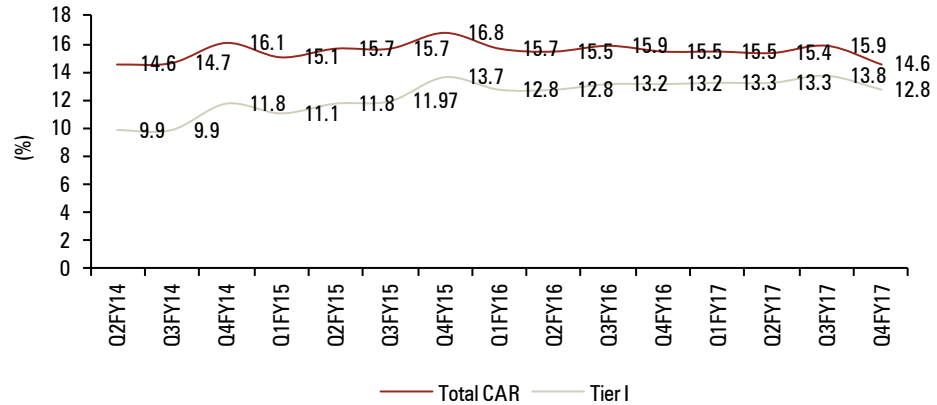
We expect rural expansion to enable maintenance of non interest income growth at 17.5% CAGR to ₹ 16974 crore by FY19E. We expect contribution to total income to stabilise around the same at ~27-28% in the next couple of years.

Return ratios still strong, adequately capitalised

RoE has been maintained at ~17-20% in the last decade with RoA > 1.5%. Capital intensive dilution over three years has kept RoE in this range. We expect RoE of 18-20% to continue, going ahead, aided by profit CAGR of 21.8% to ₹ 21567 crore by FY19E.

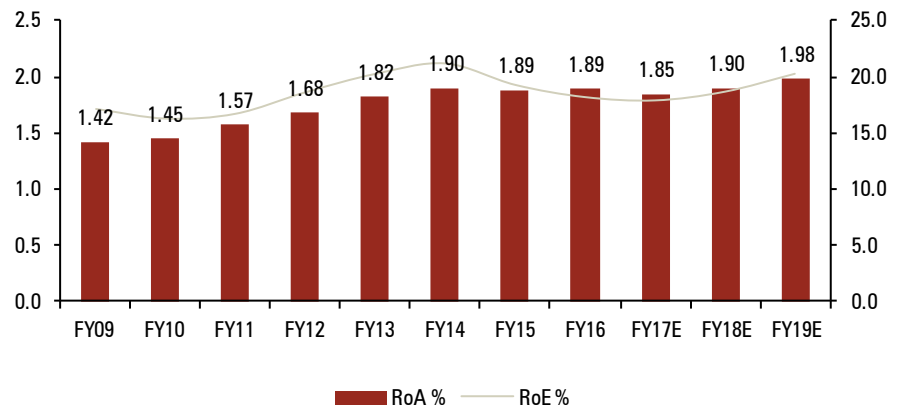
The bank mobilised ~₹ 9800 crore in FY16 via combination of domestic and foreign investors. Such capital raising would help maintain healthy growth in future and would also support margins.

Exhibit 9: Strong capital adequacy offers room for future growth as economy revives



Source: Company quarterly press release and annual report, ICICIdirect.com Research

Exhibit 10: Strong return ratios to continue



Source: Company, ICICIdirect.com Research

Outlook and valuation

The management has maintained a strategy of growing credit higher than industry with the margin range also being maintained at ~4.2-4.4%. The bank continues to have an edge in terms of liability profile with CASA of >45%. Owing to a diversified asset book, though stress has risen a bit in the last two years, it stayed under control with PCR of ~70%. We believe enhancing its rural presence at a brisk pace will help gain market share. Further, operating leverage benefits from increased spending on the digitisation front would also occur, going ahead.

The operating performance remains healthy. Return ratios remain better than peers with RoA of ~1.9% and RoE ~19%. Though PAT traction has declined in the past quarters, it is still better and more consistent considering its size and the macro environment. The inherent structural strength of the bank remains intact.

We have largely maintained our estimates. Considering healthy balance sheet growth and superior quality of the book, the bank is well placed to deliver consistently with margin leadership and robust return ratios. Therefore, HDFC Bank remains a portfolio stock with premium valuation expected to continue led by a consistent performance. We have factored in 18.6% CAGR in NII, 21.8% in PAT in FY17-19E to ₹ 21567 crore. RoA at ~1.9% is one of the best in class. Keeping in mind the positives, we revise our target price upwards at ₹ 1700 (earlier ₹ 1500) valuing the stock at 4x FY19E ABV. We maintain **BUY** recommendation. We believe investors would continue to prefer high quality retail private banks owing to their strong visibility & consistency in earnings.

Exhibit 11: Valuation Summary

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Net Profit (₹ Cr)	5167.1	6726.3	8478.4	10,214.9	12,296.8	14,549.2	17,720.1	21,566.6
EPS (₹)	22.0	28.3	35.3	40.8	48.6	56.8	69.2	84.2
Growth (%)	30.4	28.4	25.0	15.3	19.3	16.7	21.8	21.7
ABV (₹)	126.0	150.2	177.8	242.5	282.3	341.9	381.8	428.5
P/E (x)	69.8	54.4	43.5	37.7	31.6	27.1	22.2	18.3
Price / Book (x)	12.1	10.1	8.5	6.2	5.3	4.4	3.9	3.5
Price / ABV (x)	12.2	10.2	8.6	6.3	5.4	4.5	4.0	3.6
GNPA (%)	1.0	1.0	1.0	1.1	0.9	1.1	1.0	1.0
NNPA (%)	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.3
RoNA (%)	1.7	1.8	1.9	1.9	1.9	1.9	1.9	2.0
RoE (%)	18.7	20.3	21.3	19.3	18.2	17.9	18.7	20.3

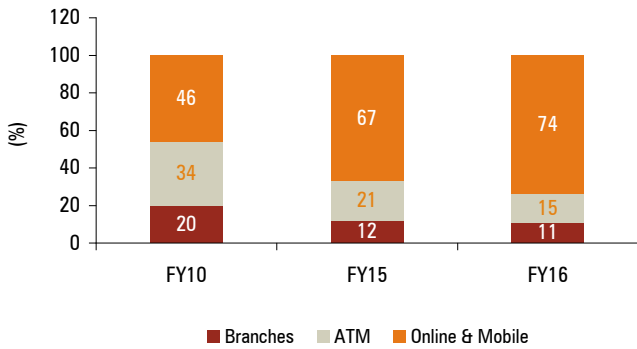
Source: Company, ICICIdirect.com Research

Annual Report Analysis

Management comments

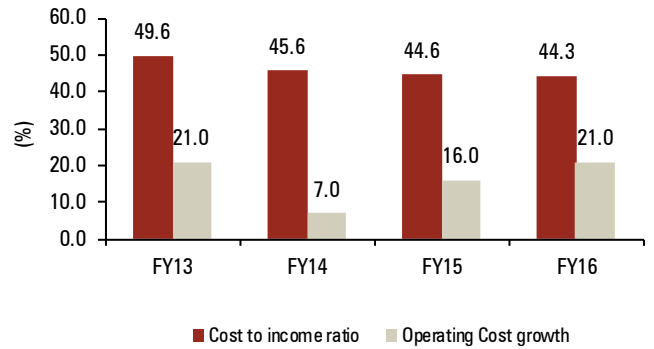
- a. In the retail banking segment, retail deposits grew 21% mainly driven by term deposits, which grew 23%. Retail loans, on the other hand, grew 29%, driven by growth in auto loans, personal loans, home loans and credit cards. The bank maintained its focus on existing customers for credit cards, with over 75% of the new cards issued to this segment
- b. In the wholesale business, during FY16, growth continued to be driven by new customer acquisition and securing a higher share of the wallet of existing customers by cross-selling with a focus on optimising yields and increasing product penetration
- c. The bank's investment banking vertical has established itself as a leading player in debt capital markets and project finance
- d. On the asset quality front, the bank did not witness any significant deterioration and continues to maintain the highest standards of governance in respect of recognition and provisioning of nonperforming loans. Excess provision is almost 100% of the required provision
- e. The bank has a comprehensive centralised risk management function, independent from the operations and other business units of the bank. Distinct policies, processes and systems are in place for the retail and wholesale lending businesses
- f. As on FY16, loans at overseas branches were ~7% of gross loans. The total income of the overseas branches comprised over 1.5% of the bank's income
- g. The bank had mobilised US\$3.4 billion in FCNR (B) deposits from NRI clients under RBI swap window in 2013. This was the highest among all banks. NRI clients had availed of loans amounting to US\$1.8 billion from the Bahrain branch towards booking these deposits. As a major portion of these deposits was for a three-year tenor, this would come up for maturity during September-November 2016
- h. During FY16, the bank did various new launches on digital platforms like 10-second personal loan, loans at ATMs, virtual relationship manager, Chillr (Wallet), etc

Exhibit 12: Rising share of digital transactions.....



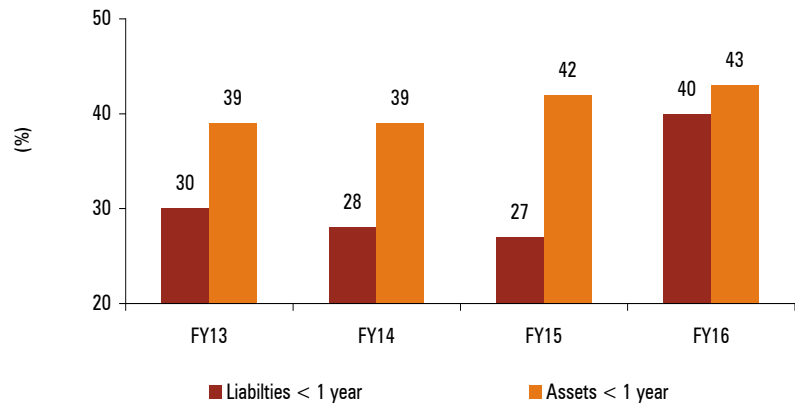
Source: Company, ICICIdirect.com, Research

Exhibit 13: ...enabling cost efficiencies



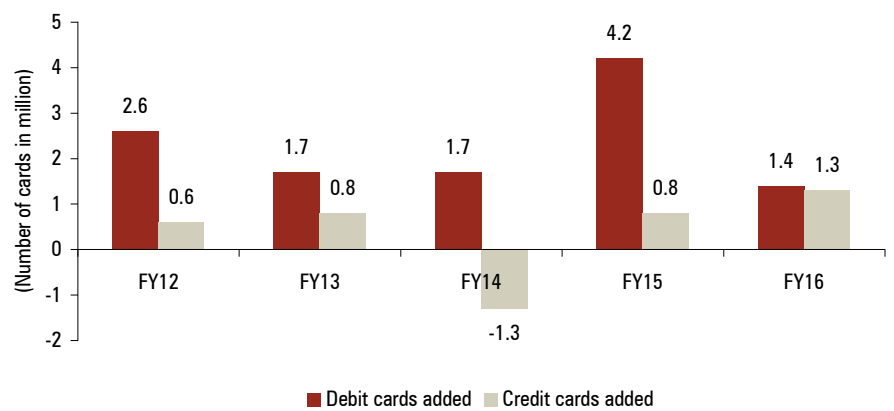
Source: Company, ICICIdirect.com, Research

Exhibit 14: Asset-liability maturity (ALM) gap



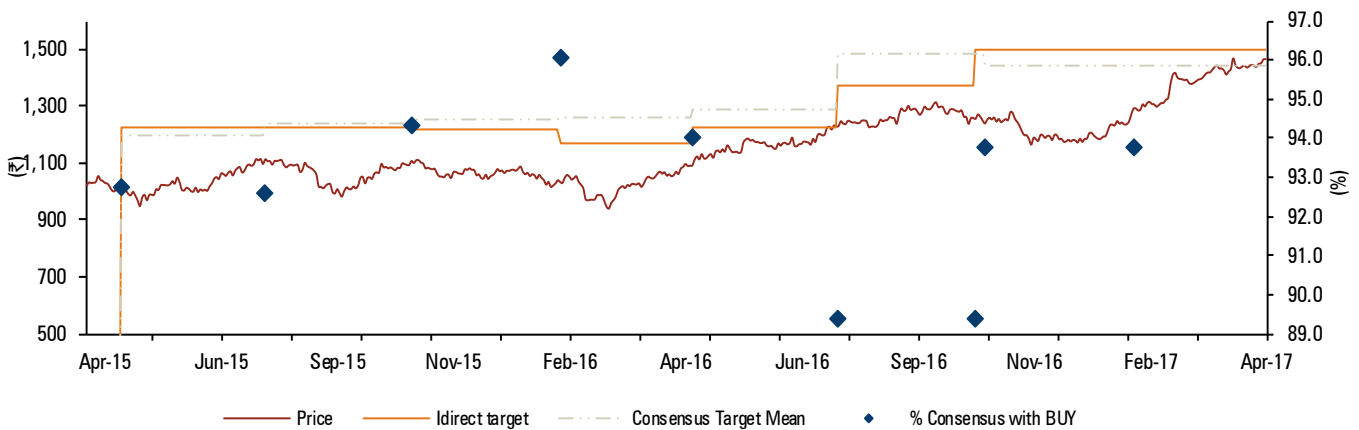
Source: Company, ICICIdirect.com, Research

Exhibit 15: In FY16, credit cards added were similar to debit cards



Source: Company, ICICIdirect.com, Research; Spike in debit cards in FY15 was due to Jan Dhan

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
FY03	HDFC enters into agreement with HDFC Bank to source housing loans
FY03	HDFC Bank launches India's first mobile payment solution
FY08	Bank registers a peak in January 2008 in the wake of strong credit growth and profit. HDFC Bank ties up with postal department, extends rural reach. It also opens
May-08	HDFC Bank and Centurion Bank of Punjab merger at share swap ratio of 1:29
FY09	The bank expands its distribution network from 761 branches in 327 cities to 1,412 branches in 528 Indian cities. The bank's ATMs increased from 1,977 to 3,295 during the year
Feb-10	HDFC Bank increases fixed deposit rates by up to 150 basis points across maturities, a move that follows the cash reserve ratio hike of 75 basis points by the Reserve Bank of India
FY10	HDFC Bank becomes No 1 private retail bank in India
FY12	Company splits its face value of shares from ₹ 10 to ₹ 2
FY13	More than 50+ quarters wherein PAT growth is ~30% YoY. Opens 87 branches in Punjab, Haryana in a single day. Strengthens presence in rural areas
FY14	First year to see average PAT growth of 25-26% vs. 30% historically
Sep-14	Stock remains subdued for three months as FIPB approval to raise foreign shareholding is yet unclear
Feb-15	Raises ~ ₹ 9800 crore via combination of domestic and foreign offerings

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Housing Development Finance Corporation Ltd	31-Mar-2017	21.20%	543.21M	0
2	Capital World Investors	31-Mar-2017	5.53%	141.68M	-1.81M
3	Capital Research Global Investors	31-Mar-2017	2.46%	62.99M	+10.80M
4	Life Insurance Corporation of India	31-Mar-2017	2.16%	55.46M	+4.53M
5	Vontobel Asset Management, Inc.	31-Jan-2017	1.67%	42.80M	+0.23M
6	ICICI Prudential Life Insurance Company Ltd.	31-Mar-2017	1.40%	35.86M	-2.78M
7	SBI Funds Management Pvt. Ltd.	31-Mar-2017	1.20%	30.66M	+3.46M
8	GIC Private Limited	31-Mar-2017	1.18%	30.12M	+1.56M
9	ICICI Prudential Asset Management Co. Ltd.	31-Mar-2017	1.16%	29.70M	-11.45M
10	Fidelity Worldwide Investment (UK) Ltd.	28-Feb-2017	0.89%	22.76M	+2.85M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	26.4	26.3	26.21	26.09	26.09
FII	39.8	39.6	39.71	39.2	42.1
DII	15.6	13.8	14.33	14.73	13
Others	18.2	20.3	19.75	19.98	18.81

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Capital Research Global Investors	+240.24M	+10.80M	ICICI Prudential Asset Management Co. Ltd.	-254.59M	-11.45M
Life Insurance Corporation of India	+100.68M	+4.53M	HDFC Asset Management Co., Ltd.	-111.66M	-5.36M
SBI Funds Management Pvt. Ltd.	+77.01M	+3.46M	Reliance Nippon Life Asset Management Limited	-104.84M	-5.03M
Fidelity Worldwide Investment (UK) Ltd.	+59.50M	+2.85M	Kotak Mahindra Asset Management Company Ltd.	-90.38M	-4.34M
GIC Private Limited	+34.70M	+1.56M	ICICI Prudential Life Insurance Company Ltd.	-61.91M	-2.78M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Interest Earned	60220.9	69305.9	81214.0	94811.9	
Interest Expended	32630.5	36166.5	41493.9	48204.0	
NII	27590.4	33139.4	39720.1	46607.9	
Growth (%)	23.2	20.1	19.9	17.3	
Non Interest Income	10751.5	12296.3	14274.8	16973.5	
Fees and advisory	7769.4	8810.5	10308.2	12369.9	
Treasury Income	785.2	1138.5	1252.3	1440.2	
Other income	2197.0	2347.3	2714.3	3163.5	
Total Income	38341.9	45435.7	53994.9	63581.5	
Employee cost	5701.2	6484.0	7210.1	8264.6	
Other operating Exp.	11276.5	13219.4	16531.8	19075.2	
Gross Profit	21364.2	25732.3	30253.0	36241.7	
Provisions	2725.6	3594.1	3646.2	3908.0	
PBT	18638.5	22138.2	26606.8	32333.7	
Taxes	6341.8	7589.0	8886.7	10767.1	
Net Profit	12296.8	14549.2	17720.1	21566.6	
Growth (%)	20.4	18.3	21.8	21.7	
EPS	48.6	56.8	69.2	84.2	

Source: Company, ICICIdirect.com Research

Key ratios		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Valuation					
No. of Equity Shares	252.8	256.3	256.3	256.3	
EPS (₹)	48.6	56.8	69.2	84.2	
BV (₹)	287.5	349.1	389.2	438.0	
ABV (₹)	282.3	341.9	381.8	428.5	
P/E	31.6	27.1	22.2	18.3	
P/BV	5.3	4.4	3.9	3.5	
P/ABV	5.4	4.5	4.0	3.6	
Yields & Margins (%)					
Net Interest Margins	4.5	4.5	4.5	4.5	
Yield on avg earning assets	9.8	9.4	9.2	9.2	
Avg. cost on funds	6.0	5.5	5.3	5.3	
Avg. Cost of Deposits	5.7	5.2	5.1	5.0	
Yield on average advances	10.8	10.5	10.3	10.2	
Quality and Efficiency (%)					
Cost / Total net income	44.3	43.4	44.0	43.0	
Credit/Deposit ratio	85.0	86.2	86.5	87.2	
GNPA	0.9	1.1	1.0	1.0	
NNPA	0.3	0.3	0.3	0.3	
ROE	18.2	17.9	18.7	20.3	
ROA	1.9	1.9	1.9	2.0	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Sources of Funds					
Capital	505.6	512.5	512.5	512.5	
Reserves and Surplus	72172.0	88949.9	99227.6	111736.2	
Networth	72677.7	89462.4	99740.1	112248.7	
Deposits	546423.6	643640.0	759596.4	903680.3	
Borrowings	53019.1	74028.6	80464.6	87543.5	
Other Liabilities & Provisions	36724.0	56710.3	63425.2	71112.9	
Total	708844.4	863841.3	1003226.3	1174585.4	
Applications of Funds					
Fixed Assets	3344.2	3626.5	3800.5	4000.0	
Investments	163886.3	214463.2	246310.0	280168.5	
Advances	464593.1	554567.7	657030.5	788436.6	
Other Assets	38102.2	42231.5	42640.4	43460.0	
Cash with RBI & call money	38918.6	48952.4	53445.0	58520.3	
Total	708844.4	863841.3	1003226.3	1174585.4	

Source: Company, ICICIdirect.com Research

Growth ratios		₹ Crore			
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Total assets	20.0	21.9	16.1	17.1	
Advances	27.1	19.4	18.5	20.0	
Deposits	21.2	17.8	18.0	19.0	
Total Income	23.5	15.0	17.0	17.1	
Net interest income	23.2	20.1	19.9	17.3	
Operating expenses	21.4	16.1	20.5	15.2	
Operating profit	22.8	20.4	17.6	19.8	
Net profit	20.4	18.3	21.8	21.7	
Book value	17.0	23.1	11.5	12.5	
EPS	19.3	16.7	21.8	21.7	

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banks)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Bank of Baroda (BANBAR)	177	180	Hold	40,542	-23	7	12	-7.6	23.6	15.0	2.1	2.0	1.8	-0.8	0.2	0.4	-13	4	6
Punjab National Bank (PUNBAN)	155	160	Buy	33,792	-20	8	12	-7.7	18.7	12.6	8.5	4.6	3.0	-0.6	0.3	0.3	-10	4	6
State Bank of India (STABAN)	283	335	Buy	235,105	13	13	19	22.1	21.7	15.1	2.5	1.7	1.6	0.5	0.4	0.5	7	6	8
Indian Bank (INDIBA)	264	305	Buy	12,406	15	28	33	17.8	9.5	7.9	1.2	1.2	1.1	0.4	0.6	0.7	5	8	9
Axis Bank (AXIBAN)	484	460	Hold	120,339	35	14	28	14.0	34.9	17.5	2.3	2.6	2.1	1.7	0.6	1.1	17	6	11
City Union Bank (CITUNI)	150	166	Buy	9,028	7	8	10	20.2	18.6	15.7	3.3	2.9	2.5	1.5	1.5	1.5	16	15	15
DCB Bank (DCB)	181	165	Hold	4,946	7	7	8	26.6	25.8	21.4	3.1	2.8	2.3	1.1	0.9	1.0	12	11	12
Federal Bank (FEDBAN)	93	110	Buy	15,951	3	5	7	33.5	20.3	13.7	2.2	2.1	1.9	0.5	0.8	1.0	6	9	12
HDFC Bank (HDFBAN)	1,537	1,700	Buy	368,187	49	57	69	31.6	27.1	22.2	5.4	4.5	4.0	1.9	1.9	1.9	18	18	19
IndusInd Bank (INDBA)	1,434	1,350	Buy	85,855	38	48	58	37.3	29.7	24.7	4.8	4.2	3.8	1.9	1.9	1.8	16	15	16
Jammu & Kashmir Bk(JAMKAS)	80	80	Buy	3,818	9	-28	6	9.3	-2.8	12.3	0.9	1.7	1.7	0.5	-1.6	0.3	7	-23	6
Kotak Mahindra Bank (KOTMAH)	885	840	Hold	235,105	11	18	20	77.7	50.0	43.6	7.2	5.3	4.8	1.1	1.7	1.7	9	12	11
Yes Bank (YESBAN)	1,556	1,650	Hold	73,551	48	60	73	32.4	25.8	21.3	4.8	3.3	2.8	1.6	1.7	1.8	21	20	19

Source: Company, ICICIdirect.com Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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