

INDUSTRY	BANKS
CMP (as on 26 Jul 2017)	Rs 115
Target Price	Rs 129
Nifty	10,021
Sensex	32,382

KEY STOCK DATA			
Bloom ntberg	FB IN		
No. of Shares (mn)	1,943		
MCap (Rs bn) / (\$ mn)	223/3,472		
6m avg traded value (Rs mn)	1,175		

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 122/61		
	3M	6M	12M
Absolute (%)	21.8	45.9	78.3
Relative (%)	14.3	29.1	62.5

SHAREHOLDING PATTERN (%)	
Promoters	-
FIs & Local MFs	30.9
FPIs	31.3
Public & Others	37.8

Source : BSE

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Minor blip, driving well

After a heart-warming and broad based recovery over FY17, FB's 1QFY18 saw a minor blip in slippage (a one-off, in our view). This led to lower margins (despite sustained growth) and higher provisions (to keep PCR at 70%+). The quarter saw higher Corporate segment slippages (mostly relapse) and demonet/farm waiver impact on Retail and Agri segments. Encouragingly, SME slippages fell QoQ.

Despite the margin miss, PPOP growth was healthy at 31%, led by moderate opex expansion (+13%), treasury gains (2x QoQ) and core fee traction (+26%).

FB is one of the better placed regional banks (superior Tier I, healthy PCR and wide network) to gain market-share from floundering PSBs. With visible operating leverage and stable asset quality, we expect RoAA to jump to 90bps (+9bps) over FY17-19E. Our conservative assumptions on loan growth (21%), NIM (3.3%) and slippage (1.5%) provide clear upside risks. Maintain BUY with a TP of Rs 129 (2x FY19E ABV).

FINANCIAL SUMMARY

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Interest Income	8,007	6,927	15.6%	8,424	-5.0%	25,077	30,526	37,298	44,887
PPOP	5,579	4,259	31.0%	5,492	1.6%	14,238	19,249	23,526	28,004
PAT	2,102	1,673	25.6%	2,566	-18.1%	4,757	8,308	10,510	13,473
EPS (Rs)	1.1	1.0	11.3%	1.5	-27.2%	2.8	4.8	5.4	6.9
ROAE (%) (ex revaluations)						6.0	9.8	9.9	10.4
ROAA (%)						0.55	0.81	0.83	0.90
Adj. BVPS (Rs)						41.5	46.4	58.6	64.5
P/ABV (x)						2.77	2.48	1.96	1.78
P/E (x)						41.6	23.9	21.2	16.6

Source :Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Growth trajectory (+29/4% YoY/QoQ) trended upward, with healthy growth across segments led by Retail (28% YoY) and Corp (+42% YoY). Given the cautious stance, SME loans (+17% YoY) grew at a relatively slower pace. We see an upside risk to our 21% loan CAGR over FY17-19E.
- Post reporting 8-qtr low slippages in 4Q, FB's slippages at Rs 4.25bn (2.27% ann.) were elevated, led by higher Corp. slippages (Rs 1.7bn, relapse of Rs 1.05bn in one A/C), and rise in retail NPAs (Rs 970mn). With higher W/Os and sale to ARCs, the rise GNPA was contained at 8% (Rs 18.7bn, 2.4%). Continued drop in SMA II, lower stressed assets (restructured, S4A, SDR and 5:25) at 1.7% and focus on rated corporates instigates comfort on asset quality. We have factored in slippages of ~1.5% over FY17-19E
- Led by controlled opex (flat QoQ) and higher treasury gains (+2x QoQ), the bank's C-I ratio was stable QoQ (50.6%). With superior growth and controlled opex, we have factored in a steady C-I ratio of ~50.7%.

Five Quarters At A Glance

Rs mn	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY Growth	QoQ Growth
Net Interest Income	6,927	7,262	7,914	8,424	8,007	15.6%	-5.0%
Non-interest Income	2,370	2,616	2,633	2,821	3,291	38.8%	16.7%
Treasury Income	830	860	860	540	1,120	34.9%	107.4%
Operating Income	9,297	9,878	10,547	11,245	11,298	21.5%	0.5%
Operating Expenses	5,039	5,128	5,798	5,753	5,719	13.5%	-0.6%
Pre-provision Profits	4,259	4,750	4,749	5,492	5,579	31.0%	1.6%
Provisions & Contingencies	1,685	1,684	1,588	1,227	2,364	40.3%	92.7%
PBT	2,574	3,066	3,161	4,265	3,214	24.9%	-24.6%
Provision For Tax	901	1,053	1,104	1,699	1,113	23.5%	-34.5%
PAT	1,673	2,013	2,057	2,566	2,102	25.6%	-18.1%

Marginally below estimates, with sharp NIM compression

Fees grew 27% YoY and FX gains jumped ~26% YoY

Other opex dipped ~12% QoQ (owing to one-off expenses in 4Q) and staff costs jumped ~14% QoQ

Balance Sheet items/ratios

Deposits (Rs bn)	811	863	922	977	958	18.1%	-1.9%
CASA Deposits (Rs bn)	266	268	320	318	320	20.3%	0.7%
Advances (Rs bn)	591	647	696	733	763	29.1%	4.1%
CD ratio (%)	72.9	75.0	75.5	75.1	79.6	675 bps	453 bps
CAR (%)	13.6	12.9	12.3	12.4	15.3	169 bps	289 bps
Tier I (%)	13.0	12.2	11.6	11.8	14.7	173 bps	291 bps

Broad-based growth led by Retail (+28% YoY), Corp (+42%) and SME (+17%)

Led by fund raise of Rs 25bn during 1Q

Profitability

Yield On Advances (%)	10.64	10.64	10.50	10.29	9.70	-94 bps	-59 bps
Cost Of Deposits (%)	6.45	6.40	6.26	6.12	6.18	-27 bps	6 bps
NIM (%)	3.28	3.31	3.32	3.42	3.13	-15 bps	-29 bps
Cost-Income Ratio (%)	54.2	51.9	55.0	51.2	50.6	-357 bps	-54 bps
Tax Rate (%)	35.0	34.3	34.9	39.8	34.6	-38 bps	-522 bps

Sharp drop was a negative surprise even as C-D ratio jumped; Core C-I ratio jumped QoQ to 56% vs. 53.7%

Asset Quality

Gross NPA (Rs bn)	17.5	18.2	19.5	17.3	18.7	6.9%	8.2%
Net NPA (Rs bn)	9.9	10.4	11.0	9.4	10.6	6.7%	12.8%
Gross NPAs (%)	2.92	2.78	2.77	2.33	2.42	-50 bps	9 bps
Net NPAs (%)	1.68	1.61	1.58	1.28	1.39	-29 bps	11 bps
Delinquency Ratio (%)	1.93	1.72	1.63	1.37	2.27	34 bps	91 bps
Coverage Ratio (%)	43.1	42.9	43.5	45.5	43.2	10 bps	-232 bps
Coverage ratio (%) Reported	72.1	71.7	71.0	71.8	70.3	-183 bps	-149 bps

**Slippages led by Corp (Rs 1.69bn), Retail (Rs 970mn) and SME (Rs 1.14bn)
Restructured book at 1.7% includes SDR/S4A and 5:25 to the tune of Rs 1.9bn**

Change In Estimates

(Rs mn)	FY18E			FY19E		
	Old	New	Change	Old	New	Change
NII	37,224	37,298	0.2%	44,160	44,887	1.6%
PPOP	22,765	23,526	3.3%	26,974	28,004	3.8%
PAT	10,266	10,510	2.4%	13,068	13,473	3.1%
Adj. BVPS (Rs)	52.0	58.6	12.7%	58.2	64.5	10.9%

Source: HDFC sec Inst Research

Strong loan growth was broad-based, led by Retail (+28% YoY) and Corp (+42%)

Retail disbursements stood at Rs 10bn during the qtr

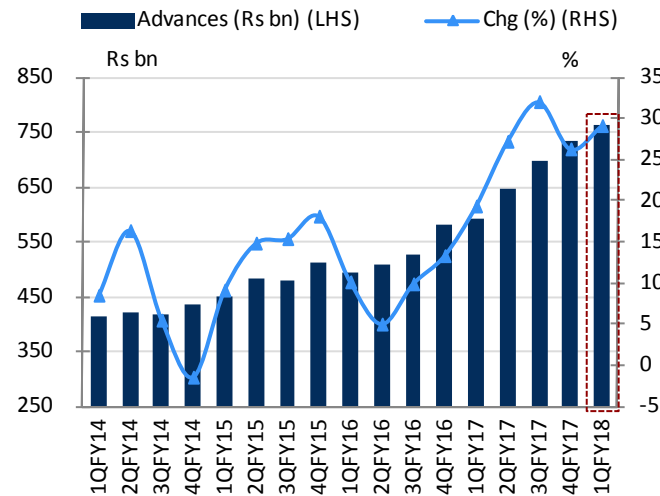
Encouragingly, SME loans too grew ~17% YoY

Going forward, the loan mix should remain stable, with 1/3rd share in each segment

Deposits dipped ~2% QoQ with flat CASA

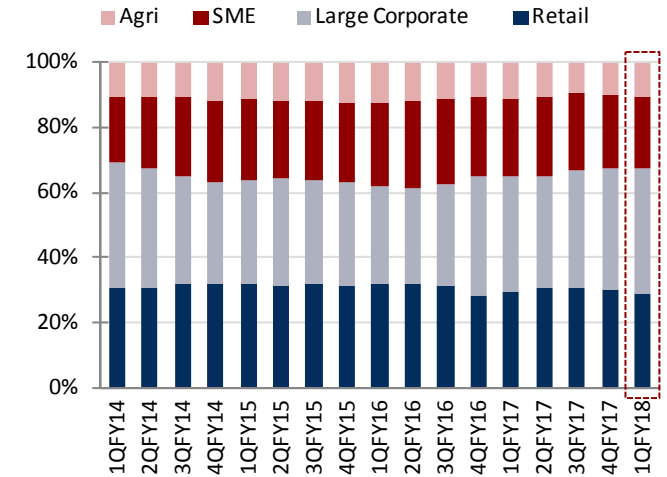
CASA ratio improved ~85bps QoQ to 33.4%

Healthy Loan Of ~29/4% YoY/QoQ



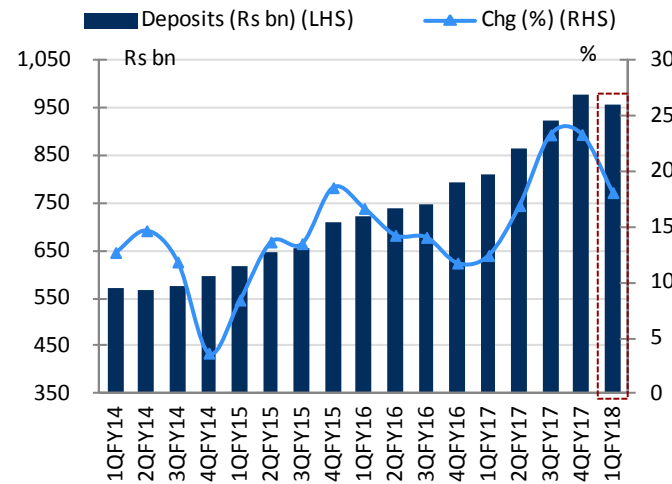
Source: Company, HDFC sec Inst Research

Share Of Large Corp Further Inches Up To 38.5%



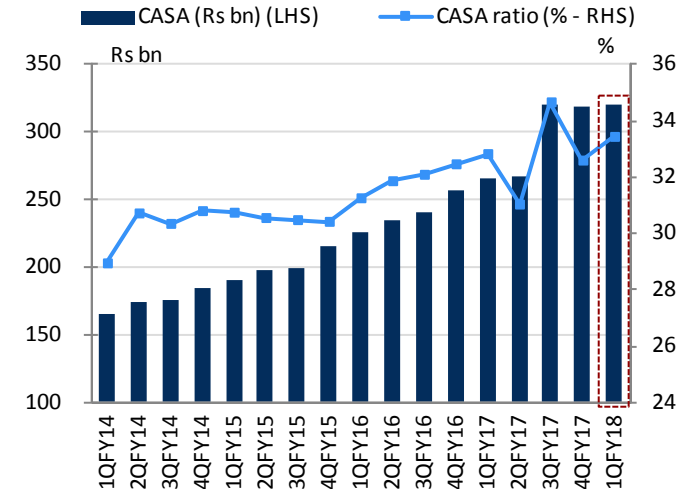
Source: Company, HDFC sec Inst Research

Deposit Growth Moderated To 18% YoY



Source: Bank, HDFC sec Inst Research

CASA Deposits Were Flat Sequentially



Source: Bank, HDFC sec Inst Research

NIMs were down ~29bps, despite higher C-D Ratio and drop in CoF

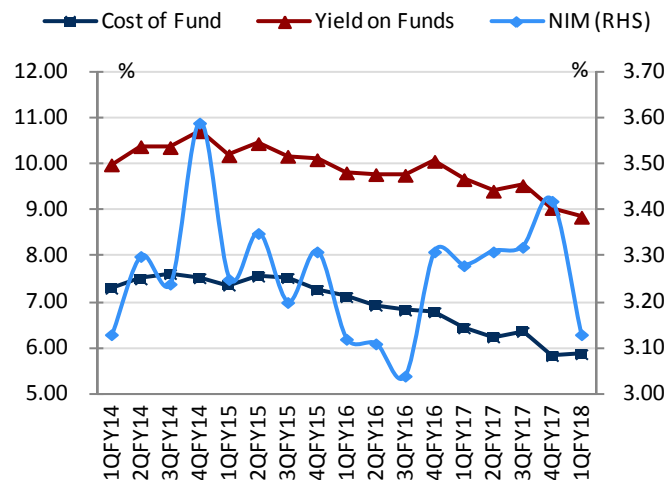
NIM decline was attributable to (1) Interest reversals to the tune of 120mn, (2) Interest on tax refund of Rs 100mn in 4Q and (3) Lower income to the tune of Rs 100mn owing to shift to MCLR-linked loans

~75% of the book already linked to MCLR-based regime

Core C-I ratio jumped ~245bps QoQ to 56.2%; overall C-I ratio improved ~50bps QoQ to 50.6%

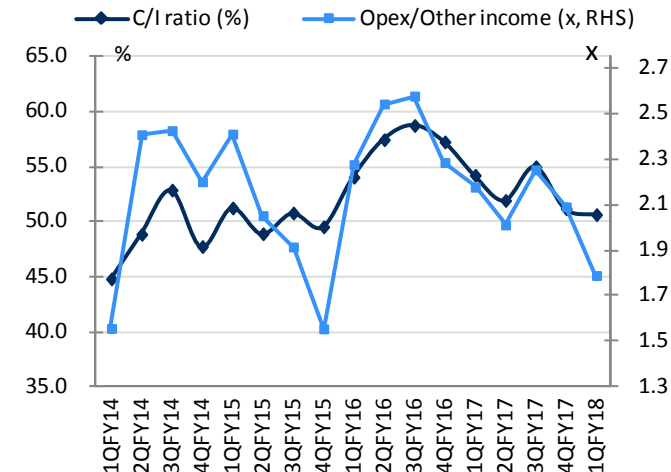
Opex was controlled with drop in Other opex (12.4% QoQ)

NIMs Dip Despite Drop In CoF & Rise In C-D Ratio



Source: Bank, HDFC sec Inst Research

Core C-I Ratio Jumped ~245bps Sequentially



Source: Bank, HDFC sec Inst Research

Non-interest Income: Sharp Uptick In Treasury Gains

Rs mn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Fee	808	1,010	920	1,080	860	1,040	1,010	1,250	1,150	1,250	1,260	1,710	1,460
% Avg Loans	0.73	0.86	0.76	0.87	0.68	0.83	0.78	0.90	0.78	0.81	0.75	0.96	0.78
FX	262	350	300	260	410	330	190	370	270	270	330	410	340
Treasury	400	420	770	960	380	260	230	410	830	860	860	540	1,120
Recovery	57	75	195	1,060	290	190	410	240	130	240	180	160	370
Total	1,565	1,959	2,199	3,060	1,939	1,823	1,833	2,269	2,370	2,616	2,633	2,821	3,291
growth % (YoY)	-27%	37%	41%	72%	24%	-7%	-17%	-26%	22%	44%	44%	19%	39%

Source: Bank

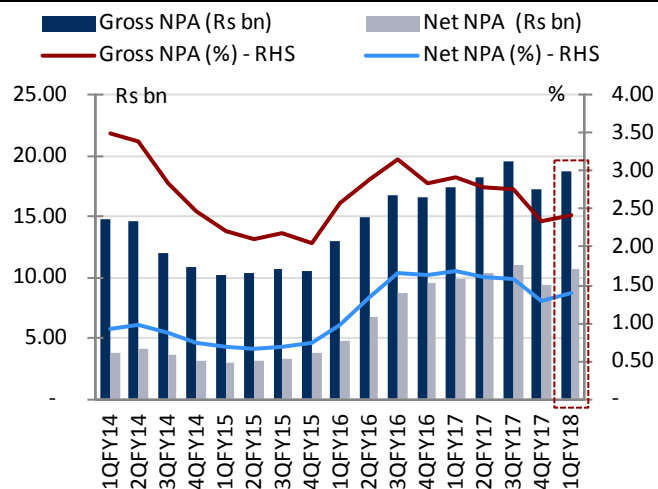
Slippages: Retail Rs 970mn vs. 550mn QoQ, Corporate Rs 1.69bn vs. Rs 370mn

Corp slippages include one large relapse of Rs 1.05bn

SME slippages were lower at Rs 1.14bn vs. Rs 1.2bn QoQ

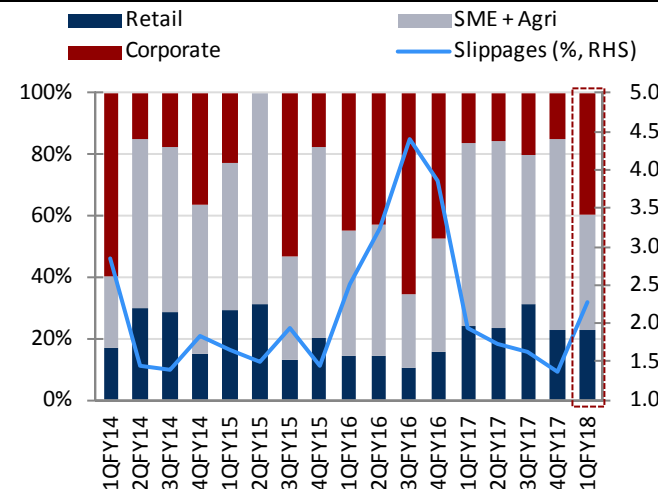
Std restructured book (incl. 5:25, SDR and S4A) stood at ~Rs 13.26bn (1.7%)

GNPAs Inched Up With Higher Slippages



Source: Bank, HDFC sec Inst Research

Major Slippages Contributed By Corp Segment



Source: Bank, HDFC sec Inst Research

GNPA Movement: Higher Slippages Led By Corp Segment

Rs mn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Opening	10,874	10,164	10,310	10,670	10,577	13,046	14,976	16,826	16,678	17,473	18,197	19,516	17,271
Slippages	1,830	1,760	2,340	1,800	3,170	4,050	5,710	5,360	2,830	2,660	2,730	2,440	4,250
Ann. (%)	1.66	1.51	1.94	1.45	2.51	3.23	4.41	3.87	1.93	1.72	1.63	1.37	2.27
Recoveries	2,000	1,044	1,360	1,270	693	1,340	3,330	2,368	1,100	1,146	1,110	1,500	1,381
W/Os	540	570	620	610	6	780	530	3,140	930	790	460	180	1,460
Closing	10,164	10,310	10,670	10,590	13,048	14,976	16,826	16,678	17,478	18,197	19,357	20,276	18,680

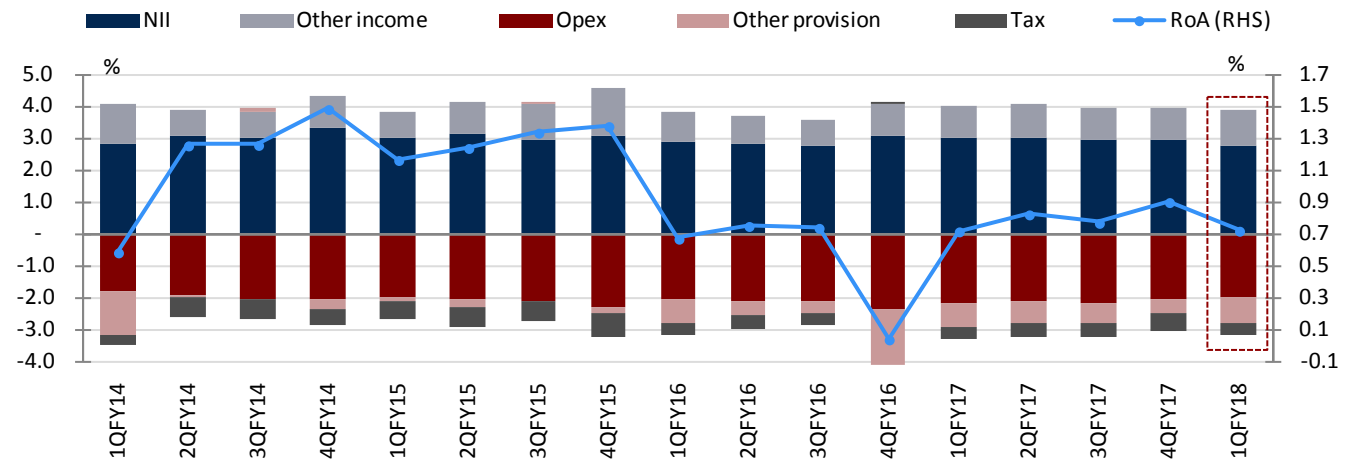
Source: Bank

Slippages Break Up

Rs mn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Retail	530	550	310	360	460	570	610	850	670	630	860	550	970
SME	730	1050	650	950	1090	1550	1150	1540	1340	1350	1190	1220	1140
Corp	420	0	1250	320	1430	1740	3750	2540	450	420	550	370	1690
Agri	150	160	130	170	190	190	200	430	340	260	140	300	450

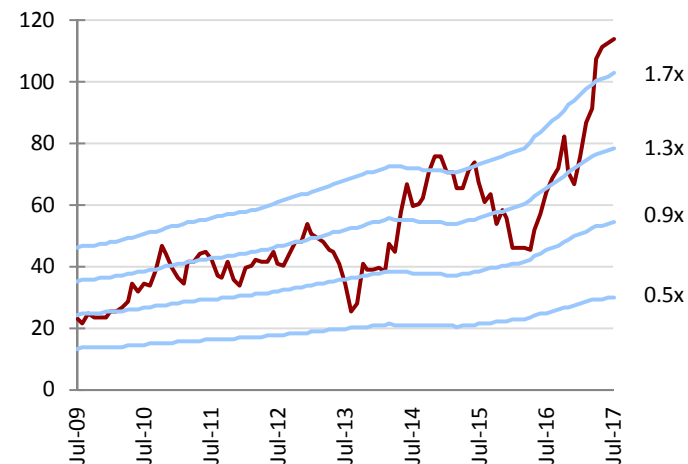
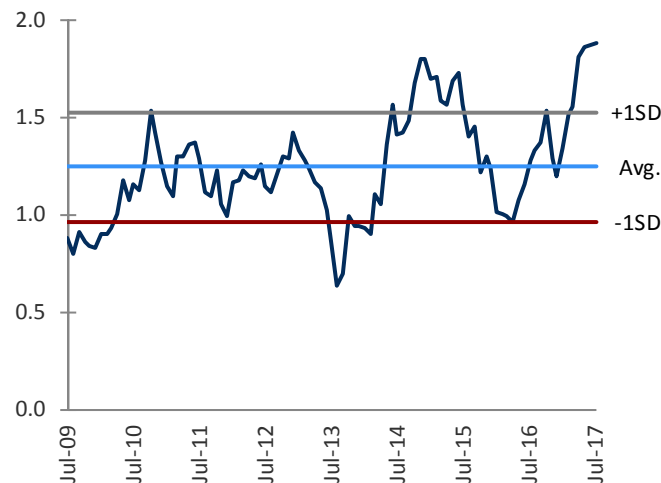
Source: Bank

RoAA Dip Owing to Higher Provisions



Source: Bank, HDFC sec Inst Research

P/ABV Band Chart



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 (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
KMB#	1,808	987	BUY	1,109	136	181	205	45.4	35.6	29.5	6.18	4.54	3.90	13.2	13.9	13.3	1.68	1.89	1.89
ICICIBC #	1,808	310	BUY	317	111	111	132	14.5	15.4	12.7	2.20	2.19	1.76	10.0	10.8	11.6	1.31	1.24	1.29
AXSB	1,267	529	NEU	510	197	220	255	34.4	22.0	13.7	2.69	2.40	2.07	6.8	9.9	14.4	0.65	0.89	1.23
IIB	940	1,580	BUY	1,663	331	382	443	33.0	26.6	21.9	4.77	4.14	3.56	15.3	16.3	17.2	1.78	1.79	1.78
FB	223	115	BUY	129	46	59	65	23.9	21.2	16.6	2.48	1.96	1.78	9.8	9.9	10.4	0.81	0.83	0.90
CUB	98	163	BUY	179	53	62	72	19.5	17.1	14.9	3.11	2.65	2.28	15.2	15.0	14.9	1.51	1.52	1.51
DCBB	61	198	BUY	222	64	79	89	28.3	23.4	18.4	3.10	2.51	2.23	10.8	10.9	11.1	0.93	0.97	1.02
SBIN #	2,296	296	BUY	348	109	126	152	14.4	12.4	9.9	1.73	1.51	1.24	6.8	6.7	7.9	0.42	0.43	0.49
BOB	377	163	BUY	220	88	121	157	27.3	12.5	8.2	1.85	1.35	1.04	3.8	7.9	11.1	0.20	0.42	0.59
Equitas	57	169	BUY	176	63	65	70	35.8	50.2	28.4	2.68	2.59	2.40	8.9	5.0	8.2	2.00	1.11	1.63
Ujjivan	39	325	NEU	354	147	159	175	16.0	23.9	17.7	2.22	2.05	1.86	16.4	8.9	10.9	2.92	1.79	2.01

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

Income Statement

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Interest Earned	74,195	77,482	86,774	104,509	123,641
Interest Expended	50,391	52,404	56,247	67,211	78,753
Net Interest Income	23,804	25,077	30,526	37,298	44,887
Other Income	8,783	8,082	10,818	11,297	11,949
Fee Income (CEB)	3,811	4,155	5,761	5,839	7,007
Treasury Income	2,557	1,275	3,087	2,750	2,000
Total Income	32,587	33,159	41,345	48,595	56,836
Total Operating Exp	16,309	18,921	22,095	25,069	28,832
Employee Expense	8,920	10,529	11,638	13,190	15,064
PPOP	16,278	14,238	19,249	23,526	28,004
Provisions & Contingencies	1,067	7,041	6,184	6,900	7,250
Prov. for NPAs (incl. std prov.)	2,043	5,553	4,051	4,940	5,231
PBT	15,210	7,197	13,065	16,627	20,755
Provision for Tax	5,153	2,440	4,757	6,117	7,281
PAT	10,057	4,757	8,308	10,510	13,473

Source: Bank, HDFC sec Inst Research,

Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	1,713	3,438	3,448	3,879	3,879
Reserves	75,668	77,474	85,976	119,517	131,020
Shareholders' Funds	77,381	80,912	89,424	123,397	134,900
Savings	177,269	214,222	263,977	316,770	380,123
Current	40,566	46,304	56,552	65,035	73,164
Term Deposits	490,415	531,191	656,117	787,341	944,830
Total Deposits	708,250	791,717	976,646	1,169,146	1,398,116
Borrowings	23,082	21,766	58,973	48,428	50,850
Other Liabilities & Provs	19,791	19,905	24,727	27,199	29,919
Total Liabilities	828,505	914,300	1,149,769	1,368,170	1,613,785
APPLICATION OF FUNDS					
Cash & Bank Balance	47,800	54,198	74,522	74,490	81,438
Investments	205,688	222,175	281,961	332,391	388,240
G-Secs	168,761	170,040	215,654	262,882	311,305
Advances	512,850	580,901	733,363	898,369	1,078,043
Fixed Assets	4,666	5,200	4,895	5,139	5,396
Other Assets	57,500	51,826	55,029	57,780	60,668
Total Assets	828,505	914,300	1,149,769	1,368,170	1,613,785

Source: Bank, HDFC sec Inst Research,

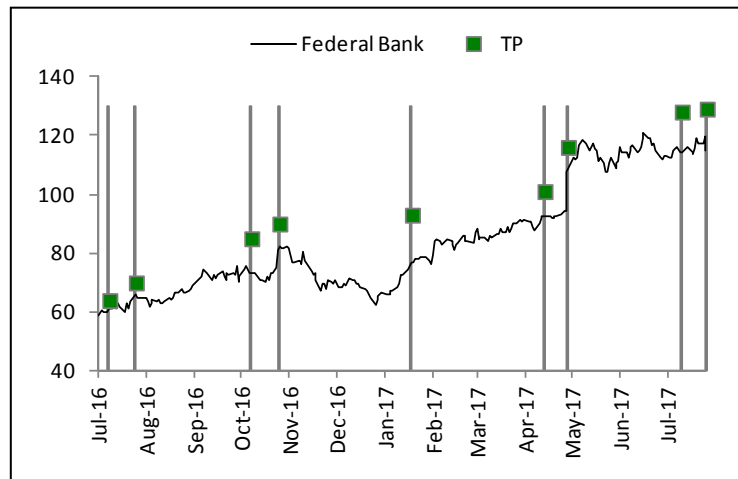
Key Ratios

	FY15	FY16	FY17	FY18E	FY19E
VALUATION RATIOS					
EPS	5.9	2.8	4.8	5.4	6.9
Earnings Growth (%)	19.9	(52.7)	74.7	26.5	28.2
BVPS	45.1	47.1	51.9	63.6	69.6
Adj. BVPS	42.9	41.5	46.4	58.6	64.5
ROAA (%)	1.28	0.55	0.81	0.83	0.90
ROAE (%)	13.7	6.0	9.8	9.9	10.4
P/E (x)	19.6	41.6	23.9	21.2	16.6
P/ABV (x)	2.68	2.77	2.48	1.96	1.78
P/PPOP (x)	12.1	13.9	10.3	9.5	8.0
Dividend Yield (%)	0.5	0.6	0.8	0.6	0.8
PROFITABILITY					
Yield on Advances (%)	11.5	10.4	10.0	9.7	9.6
Yield on Investment (%)	7.4	8.2	7.1	7.1	7.1
Cost of Funds (%)	7.3	6.8	6.1	6.0	5.9
Cost of Deposits (%)	7.1	6.7	6.1	6.0	5.9
Core Spread (%)	4.2	3.6	3.9	3.8	3.7
NIM (%)	3.3	3.2	3.3	3.2	3.3
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	2.1	2.2	2.1	2.0	1.9
Cost-Income Ratio (Excl Treasury)	54.3	59.3	57.8	54.7	52.6
BALANCE SHEET STRUCTURE					
Loan Growth (%)	18.1	13.3	26.2	22.5	20.0
Deposit Growth (%)	18.6	11.8	23.4	19.7	19.6
C/D Ratio (%)	72.4	73.4	75.1	76.8	77.1
Equity/Assets (%)	9.3	8.8	7.8	9.0	8.4
Equity/Advances (%)	15.1	13.9	12.2	13.7	12.5
CASA (%)	30.8	32.9	32.8	32.7	32.4
Capital Adequacy Ratio (CAR, %)	15.5	13.9	12.4	14.4	13.4
W/w Tier I CAR (%)	14.8	13.4	11.8	14.0	13.0

	FY15	FY16	FY17	FY18E	FY19E
ASSET QUALITY					
Gross NPLs (Rsm)	10,577	16,678	17,271	20,010	21,839
Net NPLs (Rsm)	3,733	9,500	9,412	9,763	9,710
Gross NPLs (%)	2.0	2.8	2.3	2.2	2.0
Net NPLs (%)	1.0	1.6	1.3	1.1	0.9
Coverage Ratio (%)	64.7	43.0	45.5	51.2	55.5
Provision/Avg. Loans (%)	0.43	1.02	0.62	0.61	0.53
Slippages (%)	1.72%	3.47%	1.64%	1.50%	1.40%
ROAA TREE					
Net Interest Income	3.02%	2.88%	2.96%	2.96%	3.01%
Non-interest Income	1.12%	0.93%	1.05%	0.90%	0.80%
Treasury Income	0.32%	0.15%	0.30%	0.22%	0.13%
Operating Cost	2.07%	2.17%	2.14%	1.99%	1.93%
Provisions	0.14%	0.81%	0.60%	0.55%	0.49%
Provisions for NPAs	0.26%	0.64%	0.39%	0.39%	0.35%
Tax	0.65%	0.28%	0.46%	0.49%	0.49%
ROAA	1.28%	0.55%	0.81%	0.83%	0.90%
Leverage (x)	10.72	11.01	12.12	11.83	11.54
ROAE	13.69%	6.01%	9.75%	9.88%	10.43%

Source: Bank, HDFC sec Inst Research,

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
8-Jul-16	60	BUY	64
25-Jul-16	64	BUY	70
7-Oct-16	73	BUY	85
26-Oct-16	81	BUY	90
20-Jan-17	77	BUY	93
13-Apr-17	93	BUY	101
1-May-17	107	BUY	116
10-Jul-17	116	BUY	128
27-Jul-17	115	BUY	129

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

Disclosure:

We, **Darpin shah, MBA & Pranav Gupta, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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