

HDFC BANK

On a strong footing

India Equity Research | Banking and Financial Services

HDFC Bank reported yet another strong performance with sustained traction in core operating profitability—jumped 30% YoY—in Q2FY18. NIMs settling at 4.3% (upper end of guided range) coupled with robust traction in loan growth (domestic book up >26%) led to 20% plus NII spurt. Improvement in core fee income (up >24% YoY) and contained opex (up <14% YoY) lent further support. Liability franchise continues to be strong—CASA at 43% (savings accounts (SA) moved up ~24% YoY). Asset quality remained healthy with limited stress addition, though provisions were elevated due to higher general provisions (made conservative provisions towards 1 account under 5:25 while it is under discussion with RBI regarding classification). Best-in-class liability franchise and marginal stress baggage place the bank in a sweet spot to capitalise on emerging opportunities. Maintain ‘BUY’.

Asset quality steady; provision rise on higher general provisions

Asset quality remained benign with GNPLs/NNPLs being broadly stable at 1.26%/0.43%. However, credit costs were elevated at INR14.8bn, largely driven by higher provisions (INR7bn, including utilisation of INR3bn floating provisions) as the bank conservatively provided for one 5:25 account. Low restructured book (0.1%), nil 5:25 & SDR and ~INR10bn floating provisions lend comfort. Marginal stress baggage places HDFC Bank in a sweet spot to capitalise on emerging opportunities (personal loans, credit cards, etc).

Sound fundamentals bolstering market share and spurring growth

The bank’s loan growth momentum sustained—up 22% YoY—with domestic loan spurt of >26% (>4x industry growth, an indication of market share gains with strong traction in business banking and unsecured segments). Armed with scale benefits, wide distribution, faster TAT, better services the bank is well positioned to garner maximum benefit of churn in competition. We revise our loan growth estimate upwards by 2% and now expect 23% plus operating profit growth (versus sub-20% earlier).

Outlook and valuations: Strong franchise; maintain ‘BUY’

Best-in-class liability franchise, expansion of rural/semi-urban branches and improvement in productivity owing to digital focus will ensure the bank delivers above-industry earnings growth—23-25% CAGR over FY17-19E— and sustains superior return ratios (RoA of 2%). At CMP, the stock is trading at 4.0x FY19E P/ABV and 21.7x FY19E P/E. We maintain ‘BUY/SO’ with TP of INR2,100 (valuing it at 4.5x FY19E P/ABV).

Financials

	(INR mn)							
Year to March	Q2FY18	Q2FY17	Growth %	Q1FY18	Growth %	FY17	FY18E	FY19E
Net revenue	133,580	108,945	22.6	128,874	3.7	454,357	553,552	651,846
Net profit	41,510	34,553	20.1	38,938	6.6	145,496	182,629	220,824
Dil. EPS (INR)	15.9	13.4	18.7	15.0	6.0	56.8	71.3	86.2
Adj. BV (INR)						344.1	399.0	466.8
Price/ Adj book (x)						5.4	4.7	4.0
Price/ Earnings (x)						32.9	26.2	21.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: HDBK.BO, B: HDFCB IN)

CMP	: INR 1,867
Target Price	: INR 2,100
52-week range (INR)	: 1,880 / 1,158
Share in issue (mn)	: 2,581.4
M cap (INR bn/USD mn)	: 4,820 / 74,073
Avg. Daily Vol.BSE/NSE('000)	: 2,016.6

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	21.0	21.1	21.2
MF's, FI's & BK's	11.7	11.1	10.6
FII's	33.9	34.3	34.4
Others	33.4	33.5	33.8
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	2.4	2.4	(1.3)
3 months	7.6	2.4	(2.1)
12 months	47.8	17.2	19.1

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Banking and Financial Services

Table 1: Summary of Q2FY18 financials

(INR mn)	Q2FY18	Q2FY17	Growth (%)	Q1FY18	Growth (%)	Comments
Net interest income	97,521	79,936	22.0	93,707	4.1	NIMs settling at upper end of the guided range at 4.3% coupled with better traction in loan growth led to 22% NII growth.
Other income	36,059	29,010	24.3	35,167	2.5	Core fee income showed strong traction , registering > 24% growth. Sustainability will hold key
Operating expenses	55,401	48,700	13.8	53,675	3.2	Bank is not only focused on rationalising cost but also realigning processes to improve productivity; expects cost/income ratio to dip further
Staff expense	17,158	16,572	3.5	16,575	3.5	
Other opex	38,243	32,128	19.0	37,100	3.1	
Pre prov op profit (PPP)	78,179	60,246	29.8	75,199	4.0	Core profitability growth sustained momentum, with third consecutive quarter of >25% growth momentum
Provisions	14,762	7,490	97.1	15,588	(5.3)	Contingent provision towards one account which is under 5:25 refinancing and increase in coverage fed into higher credit cost
Profit before tax	63,417	52,756	20.2	59,612	6.4	
Provision for tax	21,907	18,202	20.4	20,673	6.0	
Profit after tax	41,510	34,553	20.1	38,938	6.6	
EPS (INR)	15.9	13.4	18.7	15.0	6.0	
Balance sheet (INR bn)						
Advances	6,049	4,944	22.3	5,810	4.1	Loan growth impressive at > 22%, indicating market share gains. The growth was driven by business banking and un-secured segment.
Deposits	6,893	5,917	16.5	6,714	2.7	
Investments	2,403	2,067	16.3	2,161	11.2	
Asset quality (INR bn)						
Gross NPA	77.0	50.7	52.0	72.4	6.3	Slippages at INR24.7bn & write-offs of INR7.6bn restricted rise in GNPLs. Agri recovery is contingent on crop recovery and will gain traction over next few months
Gross NPA (%)	1.3	1.0		1.2		
Net NPA	27.0	14.9	81.1	26.3	2.6	
Net NPA (%)	0.4	0.3		0.4		
Provision coverage (%)	65.0	70.6		63.7		

Source: Company, Edelweiss research

Table 2: Advance growth at ~22% YoY, CD ratio rise to ~88%

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Advances (INR bn)	4,944	4,950	5,546	5,810	6,049
Advances growth Q-o-Q (%)	5.1	0.1	12.0	4.8	4.1
Advances growth Y-o-Y (%)	18.1	13.4	19.4	23.4	22.3
Deposits (INR bn)	5,917	6,347	6,436	6,714	6,893
Deposit growth Q-o-Q (%)	3.1	7.3	1.4	4.3	2.7
Deposit growth Y-o-Y (%)	16.7	21.1	17.8	17.0	16.5
CD ratio (%)	83.6	78.0	86.2	86.5	87.7

Source: Company

Table 3: Core fee income gains traction

(INR bn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Y-o-Y (%)
Fees & commissions	21.0	22.1	25.2	25.8	26.1	24.2
Forex & deri. rev.	3.0	3.0	3.6	3.0	3.8	30.2
Total fee income	24.0	25.0	28.8	28.7	30.0	25.0
% of revenue	26.6	27.4	27.6	27.3	27.0	

Source: Company

Table 4: Slippages at INR24.7bn & write-offs of INR7.6bn restrict rise in GNPLs

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Gross NPA (INR mn)	50,690	52,323	58,857	72,429	77,028
Gross NPA (%)	1.0	1.1	1.1	1.2	1.3
Growth Q-o-Q (%)	3.0	3.2	12.5	23.1	6.3
Net NPA (INR mn)	14,889	15,643	18,440	26,282	26,968
Net NPA (%)	0.3	0.3	0.3	0.4	0.4
Growth Q-o-Q (%)	(0.3)	5.1	17.9	42.5	2.6
Prov. cov. (%)	70.6	70.1	68.7	63.7	65.0

Source: Company

Table 5: NIMs settling at 4.3% (upper end of the guided range)

(%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
NIMs (rep)	4.2	4.1	4.3	4.4	4.3
ROA (quarterly)	0.5	0.5	0.5	0.5	0.5

Source: Company

Table 6: Cost-to-income ratio at <42%

(%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Cost-income ratio	44.7	42.3	41.8	41.6	41.5
Tax rate	34.5	34.4	33.7	34.7	34.5

Source: Company

Table 7: Liability franchise continues to be strong

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q-o-Q (%)
Savings account (INR bn)	1,600	1,866	1,936	1,931	1,977	2.4
Current account (INR bn)	792	1,012	1,156	1,020	978	(4.1)
CASA %	40.4	45.4	48.0	44.0	42.9	
Time deposit %	59.6	54.6	52.0	56.0	57.1	
Total deposits (INR bn)	5,917	6,347	6,436	6,714	6,893	2.7

Source: Company

Table 8: Retail book witnesses continued traction (as per RBI classification)

(%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Retail	51.1	52.7	51.2	52.1	53.6
Non retail	48.9	47.3	48.8	47.9	46.4
Retail loans break-up:					
Auto Loans	22.4	22.4	21.9	21.8	21.3
Personal Loans	17.7	17.8	17.6	18.3	18.7
CVs	6.6	6.7	6.8	6.5	6.2
Loan Against Securities	0.5	0.5	0.5	0.5	0.5
2-Wheelers	2.3	2.3	2.2	2.2	2.1
Business Banking	12.5	12.3	12.8	13.4	14.0
Credit Cards	8.5	9.1	9.2	9.6	9.5
Housing loans	13.3	13.6	13.5	12.8	12.3
Others	14.3	13.5	13.8	13.3	13.7
Total	100.0	100.0	100.0	100.0	100.0

Source: Company

Table 9: Break up of domestic retail advances (as per internal classification)

(INR bn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Auto	790	644	22.6	737	7.1
Personal Loans	613	450	36.2	561	9.4
Home Loans	400	336	19.2	388	3.2
Kisan Gold Card	317	249	27.5	281	12.8
Credit Cards	308	213	44.5	291	5.9
CV/CE	404	336	20.3	385	5.0
Others	165	163	1.3	159	3.7
Two Wheelers	85	71	19.9	77	10.5
Gold Loans	53	51	3.1	51	2.4
Loans against securities	32	21	56.9	30	8.9
Total Retail Advances	3,168	2,533	25.0	2,960	7.0
Add : Business Banking	965	658	46.6	881	9.5
Total Retail Advances (Including business banking)	4,132	3,191	29.5	3,841	7.6

Source: Company

Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Interest income	196,703	170,699	15.2	186,687	5.4	383,390	818,035	973,984
Interest exp	99,182	90,764	9.3	92,980	6.7	192,162	409,637	490,562
Net int. inc. (INR mn)	97,521	79,936	22.0	93,707	4.1	191,228	408,398	483,422
Other income	36,059	29,010	24.3	35,167	2.5	71,226	145,154	168,424
Net revenues	133,580	108,945	22.6	128,874	3.7	262,454	553,552	651,846
Operating expenses	55,401	48,700	13.8	53,675	3.2	109,075	225,305	259,669
Staff expense	17,158	16,572	3.5	16,575	3.5	33,733	71,077	80,139
Other opex	38,243	32,128	19.0	37,100	3.1	75,342	154,228	179,529
Pre prov op profit(ppop)	78,179	60,246	29.8	75,199	4.0	153,379	328,247	392,178
Provisions	14,762	7,490	97.1	15,588	(5.3)	30,350	51,537	57,596
Profit before tax	63,417	52,756	20.2	59,612	6.4	123,029	276,710	334,581
Provision for taxes	21,907	18,202	20.4	20,673	6.0	42,580	94,081	113,758
PAT	41,510	34,553	20.1	38,938	6.6	80,449	182,629	220,824
Diluted EPS (INR)	15.9	13.4	18.7	15.0	6.0	30.9	71.3	86.2

Ratios

NII/GII (%)	49.6	46.8		50.2		49.9	49.9	49.6
Cost/income (%)	41.5	44.7		41.6		41.6	40.7	39.8
Provisions / PPOP	18.9	12.4		20.7		19.8	15.7	14.7
Tax rate (%)	34.5	34.5		34.7		34.6	34.0	34.0

Bal. sheet data (INR bn)

Advances	6,049	4,944	22.3	5,810	4.1	6,049	6,766	8,254
Deposits	6,893	5,917	16.5	6,714	2.7	6,893	7,720	9,520
Investments	2,403	2,067	16.3	2,161	11.2	2,403	2,482	2,909

Asset quality

Gross NPA	77	51	52.0	72	6.3	77	93	121
Gross NPA (%)	1.3	1.0		1.2		1.3	1.3	1.4
Net NPA	27	15	81.1	26	2.6	27	28	33
Net NPA (%)	0.4	0.3		0.4		0.4	0.4	0.4
Provision coverage (%)	65.0	70.6		63.7		65.0	70.1	72.5
B/V per share (INR)							406.6	476.0
Adj book value / share							399.0	466.8
Price/ Adj. book (x)							4.7	4.0
Price/ Earnings							26.2	21.7

Q2FY18 Earnings Call Takeaways

With respect to asset quality

- GNPLs rose to 1.26% (net addition of INR4.6bn). **Having said that the bank has higher provisions as the bank has made additional provisions towards one account which is under 5:25 refinancing (currently standard, domestic loan). The bank is in discussion with RBI, pending this the bank has chosen to make contingent provisions (equivalent to regulatory requirement in case of change in classification).**
- **Contingent provisions made during the quarter is part of general & others provisions (~INR4bn). In addition to this the bank also utilised INR3bn of floating provisions towards this account. Floating provisions post utilisation is ~INR10bn.**
- GNPLs movement during the quarter– Slippages –INR24.73bn, W/O- INR7.61bn
- While the focus has been on recovery, but there has been no significant improvement or deterioration in agriculture slippages during the quarter. Management highlighted that agri recovery is contingent on crop recovery and thus expect this to gain traction over next few months. **Apart from agri portfolio there has been no significant deviation in any other retail segment.**

With respect to growth

- Loan growth (>22% YoY) was broad-based, with both domestic retail (up > 21%) and wholesale advances (up > 23%) growing at healthy rates. **Banks expects the bank to outpace the system growth going ahead**
- Growth in the wholesale book was driven by working capital demand and market share gains (emerging market segment is going at higher than others). There is enough opportunity based on relationship, rates and turnaround to see good growth momentum in this segment.
- Proportion of overseas advances stands at INR210bn out of INR6tn gross advances book (INR199bn in FY17, INR330 in Q1FY17).
- Revenue growth was > 22% , largely driven by NII up > 22% with average asset growth of 18% and 4.3% NIMs. Other income also started to gain traction which grew at 24%
- **Overall yields has come down due to a) higher proportion of corporate loans and b) lower yields in corporate due to comfortable levels of liquidity. Having said that, NIMs has held up due to a) strong CASA growth and b) 50bps reduction in saving accounts. At 4.3%, the bank is still in the guided range of 4.1-4.3%.**
- Credit card and personal loans penetration is very low. The bank is focussed for credit card & personal loans moreso for deposit customers where bank develops behavioural models based on their liability profile which is then used alongside credit bureau data, thus bank doesn't expect any adverse asset quality issues in the segment.
- Retail segment has seen lot of focus by most banks (as corporate growth has been softer), while initially higher in housing loans but now is increasing in personal and credit card segment. Having said that the bank believe that they are at advantageous point pertaining to branch, distribution, digital , etc which will help them to continue to grow.

Other highlights

- Core cost income ratio stood at 42.6%. ***The bank is focussed on reducing it further, the bank is not only focussing on cutting/rationalising cost but also realigning processes among others so as to improve productivity. Management expect revenue growth to outpace cost growth and expects that cost/income ratio will dip further (bank refrained from giving any specific guidance).***
- The compliance to GST will increase the coverage levels for banks in terms of MSME opportunity.
- In terms of saving accounts: Catering to government sector is key focus area for the bank.
- As far as MCLR is concerned: The bank is one of the banks with competitive rates and higher proportion of floating rate linked to MCLR rate. Consequently doesn't expect much impact due to transition in lending rate regime.
- On capital: Even with the rise capital requirement due to bank being a D-SIB, the Tier-1 at 13.3% is adequate. At this point in time bank has not put in motion anything pertaining to capital raising.
- The rise in commission is largely following higher volume growth and thus commensurate rise in commissions. Having said that, this is largely driven by Auto & CV segment which is still sourced through external channel vis-à-vis Personal loans and credit card which are largely sourced in-house.
- ***RWA rise during the quarter was not to do with higher credit risk (change in loan mix) but due to higher market risk (investment in Debt MF which has same risk weight as equity segment).***

Q1FY18 Earnings Call Takeaways

With respect to asset quality

- **GNPLs rose to 1.24% (net addition of INR13.6bn), roughly 60% of the increase (viz. ~INR8bn) was on account of agri segment and the balance is in line with historical trend.**
- **Provision composition:** INR15.58bn of which Specific provision was INR13.43bn and General Provision was INR2.06bn. **Of the incremental provisions of INR6.92bn (compared to Q1FY17), the increase of INR5.1bn in specific provision was driven by agri portfolio (INR3.71bn, i.e. 72% was due to agri NPLs) and of the INR2bn rise in General provisions INR1.2bn was due to provisions on stressed assets (60-100bps of general provisions vs. requirement of 40bps in some stressed segments).**
- GNPLs movement – Slippages –INR31bn , Recoveries – INR17.5bn, upgrades – INR4.9bn, W/O- INR7.37bn , other recoveries – INR5.21bn.
- Large part of the slippages this quarter was related to agri. portfolio (large part of that ~90%, is related only to crop loans and not to the retail segment of the same borrowers). The slippages from the agri. portfolio was largely a reflection of farm loan waiver than their ability to pay. Just to elucidate while ability got impacted post demonetisation but April harvest has been good so as to not significantly impact the ability of the borrower to pay. Thus what has happened is the fact that promises on Farm loan waiver has kept farmers at bay to pay the amount, but with this details being out and clarity on eligibility being by and large there, the bank expects repayments to happen over next harvest.
- **On the agri. segment the bank made higher provisions (provided 50% towards these agri assets) than required by regulatory provisions (increased coverage on the portfolio).**
- No movement of restored book – (remains at 0.1%).

With respect to growth

- Loan growth (>23% YoY) was broad-based, with both domestic retail and wholesale advances growing at healthy rates. **Banks expects the bank to outpace the system growth going ahead**
 - Growth in the wholesale book was driven by working capital demand and market share gains. There is enough opportunity based on relationship, rates and turnaround to see good growth momentum in this segment.
 - As of now haven't seen any immediate impact on business banking side which could lead to asset quality issues or lower demand, Have seen some market share gains (more branches activated in this segment)
 - Growth in the home loan is function of purchase from HDFC which was INR25bn this quarter (versus more normalised growth of INR30bn) which has nothing to do with let up in origination thus adjusting for this the growth is still higher.
- **With respect to core fee growth: there were some one-offs viz a) Strong distribution of MFs (proportion of equity is much higher), b) discussion with Oil minister/OMCs got concluded which resulted into fees (which contributed 4-5% of the growth), adjusting for these the growth is in 18-20% range. Having said that other income saw some**

higher traction in few of the core products which could drive these sort of growth henceforth.

- Overseas loans – INR201bn (INR199bn in FY17, INR330 in Q1FY17)
- Q4FY17 has seen higher level of CASA share, however this quarter there has been higher growth in Fixed deposit during this quarter.

Other highlights

- CET-1: 12.44%, Bank currently have no timeline in mind to raise the equity capital. Raised INR80bn of AT-1 bonds during the quarter.
- Historically, margins have been in the range of 4-4.3%, which seems realistic.
- Of the cases that are being referred to NCLT, bank had an exposure to only one account which was partly sold in FY15 and the balance has been fully provided for.
- Some increase in employee cost will happen under Ind-AS , management expect this to rise by around 5 percentage points. On the credit cost, the bank doesn't expect any major change as general provisions made currently higher which will offset any impact.
- With respect to HDB Financials:
 - Advances: INR329.3bn, AUM- INR350bn ;
 - Moved NPA to 90dpd this quarter for HDB which had impacted profitability, the company reported PAT of INR1.5bn

Company Description

HDFC Bank has a balance sheet size of ~INR9.34tn as at September '17. It is amongst the leading private sector banks with a market cap of over INR4.8tn. The key promoter, HDFC, holds ~21% stake, and FIIs and public hold the balance. The distribution network comprises of 4,729 branches and 12,259 ATMs in 2,669 cities / towns. HDFC Bank is among the top three players in auto loans, personal loans, commercial vehicles, cash management, and supply chain management. The bank's strengths include its brand equity, professional management, distribution reach, high CASA, clean book, and focus on profitability.

Investment Theme

Best-in-class liability franchise, expansion of rural/semi-urban branches and improvement in productivity owing to digital focus will ensure that the bank delivers above-industry earnings growth — 23-25% CAGR over FY17-19E, albeit lower than trend — and sustains superior return ratios (RoAs of 2%). Also, the RBI's directive on recognition & stress reporting divergence may weigh on the sector as a whole, but the bank seems to be better placed than other corporate banks given its superior retail franchise which will drive outperformance in near to medium term.

Key Risks

Higher-than-expected outflow in CASA and change in macro environment may impact cost of funds and consequently margins.

Higher than expected delinquencies due to the loan mix and vulnerability to system-wide deterioration in the quality of retail assets is the key risk.

Valuations de-rating of the stock due to structural changes within the bank (like change in management etc).

Lower than expected asset growth.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Deposit growth	8.6	14.0	12.0	13.0
CRR	4.0	4.0	4.0	4.0
SLR	20.8	20.0	20.0	20.0
G-sec yield	7.5	6.5	6.5	6.5
Company				
Op. metric assumpt. (%)				
Yield on advances	10.8	10.2	10.0	9.8
Yield on investments	8.5	8.4	8.3	8.2
Yield on asset	9.7	9.3	9.1	9.0
Cost of funds	5.6	5.1	4.8	4.8
Net interest margins	4.5	4.5	4.5	4.5
Cost of deposits	5.9	5.3	4.9	4.8
Cost of borrowings	7.0	7.6	7.6	7.5
Spread	4.1	4.2	4.3	4.2
Balance sheet assumption (%)				
Credit growth	28.0	22.2	22.0	22.0
Deposit growth	21.2	17.8	19.9	23.3
SLR ratio	21.5	23.1	22.2	21.5
Low-cost deposits	43.2	48.0	46.0	47.3
Net NPA ratio	0.3	0.3	0.4	0.4
Net NPA / Equity	1.8	2.1	2.7	2.7
Capital adequacy	15.5	14.6	14.1	13.6
Incremental slippage	1.6	1.5	1.9	1.7
Provision coverage	69.9	68.7	70.1	72.5

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	602,215	693,060	818,035	973,984
Interest expended	326,299	361,667	409,637	490,562
Net interest income	275,915	331,392	408,398	483,422
Non interest income	107,517	122,965	145,154	168,424
- Fee & forex income	89,868	100,749	120,899	145,079
- Misc. income	10,159	10,909	11,454	11,845
- Investment profits	7,491	11,307	12,800	11,500
Net revenue	383,432	454,357	553,552	651,846
Operating expense	169,797	197,033	225,305	259,669
- Employee exp	57,022	64,837	71,077	80,139
- Other opex	112,775	132,197	154,228	179,529
Preprovision profit	213,635	257,324	328,247	392,178
Provisions	27,256	35,933	51,537	57,596
Loan loss provisions	21,336	31,453	48,037	55,096
Other provisions	5,768	4,557	3,500	2,500
Profit Before Tax	186,379	221,391	276,710	334,581
Less: Provision for Tax	63,417	75,894	94,081	113,758
Profit After Tax	122,962	145,496	182,629	220,824
Reported Profit	122,962	145,496	182,629	220,824
Shares o /s (mn)	2,528	2,563	2,563	2,563
Adj. Diluted EPS (INR)	48.6	56.8	71.3	86.2
Dividend per share (DPS)	9.5	11.0	13.8	16.8
Dividend Payout Ratio(%)	23.5	23.3	19.4	19.5

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
NII growth	23.2	20.1	23.2	18.4
Fees growth	18.1	12.1	20.0	20.0
Opex growth	21.4	16.0	14.3	15.3
PPOP growth	22.2	19.3	28.2	20.7
Provisions growth	31.3	31.8	43.4	11.8
Adjusted Profit	20.4	18.3	25.5	20.9

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	10.8	10.2	10.0	9.8
Yield on investments	8.5	8.4	8.3	8.2
Yield on assets	9.7	9.3	9.1	9.0
Cost of funds	5.6	5.1	4.8	4.8
Net interest margins	4.5	4.5	4.5	4.5
Cost of deposits	5.9	5.3	4.9	4.8
Cost of borrowings	7.0	7.6	7.6	7.5
Spread	4.1	4.2	4.3	4.2
Cost-income	44.3	43.4	40.7	39.8
Tax rate	34.0	34.3	34.0	34.0

Banking and Financial Services

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	5,056	5,125	5,125	5,125	
Reserves & Surplus	721,721	889,498	1,036,764	1,214,537	
Net worth	726,778	894,624	1,041,889	1,219,662	
Sub bonds/pref cap	144,279	131,820	141,820	151,820	
Deposits	5,464,242	6,436,397	7,719,569	9,520,262	
Total Borrowings	385,906	608,469	788,469	850,969	
Other liabilities	367,251	567,093	637,564	719,737	
Total liabilities	7,088,456	8,638,402	10,329,310	12,462,450	
Loans	4,645,940	5,545,682	6,765,732	8,254,193	
Cash and Equivalents	389,188	489,521	531,848	638,982	
Gilts	1,257,106	1,624,187	1,888,784	2,229,815	
Others	381,752	520,446	593,407	679,106	
Fixed assets	33,432	36,267	34,723	32,277	
Other Assets	381,038	422,298	514,816	628,077	
Total assets	7,088,456	8,638,402	10,329,310	12,462,450	
Credit growth	28.0	22.2	22.0	22.0	
Deposit growth	21.2	17.8	19.9	23.3	
EA growth	19.8	20.2	20.9	20.2	
SLR ratio	21.5	23.1	22.2	21.5	
C-D ratio	86.7	90.0	91.4	90.3	
Low-cost deposits	43.2	48.0	46.0	47.3	
Provision coverage	69.9	68.7	70.1	72.5	
Gross NPA ratio	0.9	1.0	1.3	1.4	
Net NPA ratio	0.3	0.3	0.4	0.4	
Incremental slippage	1.6	1.5	1.9	1.7	
Net NPA / Equity	1.8	2.1	2.7	2.7	
Capital adequacy	15.5	14.6	14.1	13.6	
- Tier 1	13.2	12.8	12.3	11.8	

RoE decomposition (%)					
Year to March	FY16	FY17	FY18E	FY19E	
Net int. income/assets	4.5	4.5	4.5	4.5	
Fees/Assets	1.6	1.5	1.5	1.5	
Invst. profits/Assets	0.1	0.2	0.1	0.1	
Net revenues/assets	6.2	6.1	6.2	6.0	
Operating expense/assets	(2.7)	(2.7)	(2.5)	(2.4)	
Provisions/assets	(0.4)	(0.5)	(0.6)	(0.5)	
Taxes/assets	(1.0)	(1.0)	(1.0)	(1.1)	
Total costs/assets	(4.2)	(4.2)	(4.1)	(4.0)	
ROA	2.0	2.0	2.0	2.0	
Equity/assets	10.9	10.9	10.8	10.5	
ROAE (%)	18.3	17.9	18.9	19.5	

Valuation parameters					
Year to March	FY16	FY17	FY18E	FY19E	
Adj. Diluted EPS (INR)	48.6	56.8	71.3	86.2	
Y-o-Y growth (%)	19.3	16.7	25.5	20.9	
BV per share (INR)	287.5	349.1	406.6	476.0	
Adj. BV per share (INR)	283.8	344.1	399.0	466.8	
Diluted P/E (x)	38.4	32.9	26.2	21.7	
Price/ Adj. BV (x)	6.6	5.4	4.7	4.0	
Dividend Yield (%)	0.5	0.6	0.7	0.9	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
HDFC Bank	74,073	26.2	21.7	4.7	4.0	18.9	19.5
Axis Bank	16,654	24.1	12.4	2.1	1.9	7.9	14.1
DCB Bank	856	20.7	16.8	2.2	2.0	11.8	11.9
Federal Bank	3,733	21.4	17.2	2.1	1.9	10.6	10.9
ICICI Bank	26,284	14.3	10.5	2.2	1.9	11.9	14.9
IndusInd Bank	15,322	27.2	21.6	4.3	3.7	16.5	17.9
Karnataka Bank	922	8.8	7.3	0.9	0.8	9.6	10.8
Kotak Mahindra Bank	31,181	34.8	28.4	4.5	3.9	14.5	14.5
Oriental Bank Of Commerce	634	15.2	9.4	0.7	0.6	3.5	4.9
Punjab National Bank	4,520	10.3	7.5	1.7	1.1	7.5	9.8
Yes Bank	12,234	3.7	2.8	0.6	0.5	18.2	20.3
Median	-	20.7	12.4	2.1	1.9	11.8	14.1
AVERAGE	-	18.8	14.1	2.4	2.0	11.9	13.6

Source: Edelweiss research

Additional Data

Directors Data

Shyamala Gopinath	Part Time Non Executive Chairperson	Aditya Puri	Managing Director
Paresh Sukthankar	Deputy Managing Director	Keki Mistry	Director
Renu Karnad	Director	Partho Datta	Director
Bobby Parikh	Director	A N Roy	Director
Kaizad Bharucha	Director	Malay Patel	Director
Umesh Chandra Sarangi	Director	Srikanth Nadhamuni	Director

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Capital Group Companies	7.57	Life Insurance Corporation of India	2.15
SBI Funds Management	1.56	FIL Limited	1.40
ICICI Prudential Life Insurance	1.39	Vontobel Holding	1.24
50 SBI - ETF Nifty	1.19	GIC Private Limited	1.17
HDFC Asset Management	1.16	Birla Sun Life Asset Management	1.12

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
08 May 2017	Nitin Chugh	Sell	87284.00
08 May 2017	Ravi Narayanan	Sell	35000.00
08 May 2017	Munish Mittal	Sell	24000.00
04 May 2017	Ravi Narayanan	Sell	60000.00
02 May 2017	Ravi Narayanan	Sell	30000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	HOLD	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SP	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SP	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
23-Oct-17	IndiaBulls Housing Finance	Consistency at play; <i>Result Update</i>	1338	Buy
18-Oct-17	Axis Bank	Game of divergence and convergence ; <i>Result Update</i>	513	Hold
18-Oct-17	DCB Bank	Soft quarter; <i>Result Update</i>	184	Hold

Distribution of Ratings / Market Cap

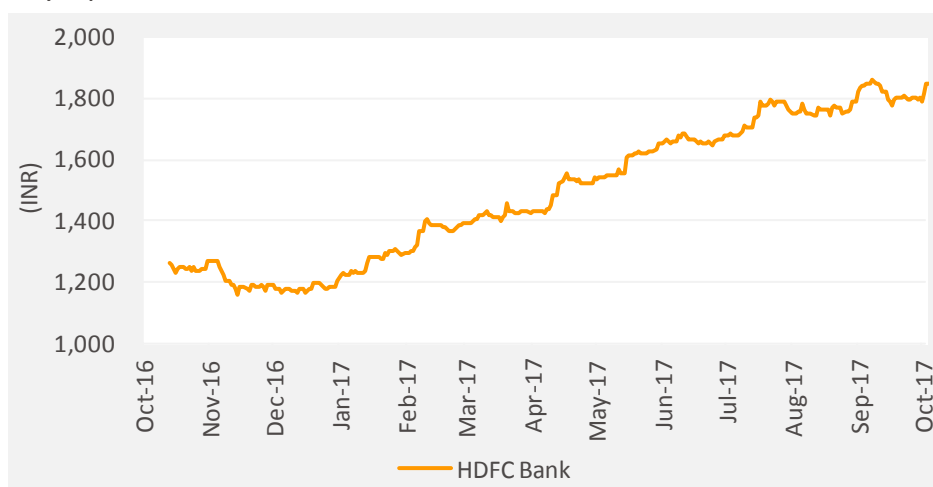
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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