

HDFC Ltd reported PAT of Rs. 21bn (15% YoY, inline with JMFe) as AUM growth improved to 18% YoY with sustained traction in individual loans (up 16% YoY on AUM basis), while the corporate book grew 23% YoY. Adj. NII growth moderated to 13% YoY in 2Q18. While we expect some pressure on spreads due to recent lending rates cuts, however, pickup in non-individual segment would offset the decline. GNPL ratio remained stable sequentially at 1.14%. While individual GNPL remained stable at 0.65%; non-individual GNPL increased 9bps QoQ to due to slippage of one developer account (of INR 1.6bn) to NPL. Credit cost (including provisions for standard assets) remained stable QoQ at 12bps and coverage ratio increased to 27% (vs. 26.4% in 1Q18). With a gradual pick up in the high-margin corporate book, we expect core operating profit growth of 18% by FY20E (vs. 14% in FY17). We value HDFC using the SOTP method and maintain BUY with a TP of Rs1,890.

- Strong AUM growth:** HDFC Ltd witnessed strong retail disbursement growth (23% YoY) leading to retail AUM growth of 16% YoY (15% YoY growth in on-book retail loans and 21% YoY growth in off-book retail loans). Individual loan growth, including sell-downs in TTM, stood at 24% YoY. The corporate book remained healthy 24% YoY/3% QoQ leading to AUM growth of 18% YoY – Highest in the last 4 years. We forecast AUM growth of 17% over FY17-20E.
- Some moderation in NII growth:** Core income (NII+ Net fee) growth moderated to 11% YoY due to some moderation in NII growth (adj. NII growth rose to 13% YoY) and decline in processing fees (-19% YoY). Cumulative spreads remained stable YoY at 2.29%, with individual spreads declining 3bps to 1.92%, while the corporate spread increased 3bps QoQ to 3.07%. We expect some pressure on spreads owing to recent lending rates cuts; however, pick up in the non-individual segment would offset the decline. We expect NII (adj) CAGR of 18% over FY17–20E.
- Stable asset quality trends:** GNPL ratio remained stable sequentially at 1.14%. While individual GNPL remained stable at 0.65%; non-individual GNPL increased 9bps QoQ to due to slippage of one developer account (of INR 1.6bn) to NPL. Credit cost (including provisions for standard assets) remained stable QoQ at 12bps and coverage ratio increased to 27% (vs. 26.4% in 1Q18). We factor credit costs of 13bps over FY18–20E.
- Maintain BUY with TP of Rs1,890:** With a gradual pick up in the high-margin corporate book, we expect the core operating profit growth of 18% by FY20E. While HDFC will be delivering improved performance and contribute 54% to the TP, other key components, i.e., HDFC Bank and Gruh Finance as well as insurance and asset management businesses will strongly contribute to the parent's valuation. As a result, HDFC's stock is well positioned to deliver steady returns over the next two years. We arrive at our Mar'19 TP of Rs 1,890 by valuing the parent at 2.8x Mar'20 BV.

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**Recommendation and Price Target**

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,890
Upside/Downside	10.8%
Previous Price Target	1,800
Change	5.0%

**Key Data – HDFC IN**

Current Market Price	INR1,706
Market cap (bn)	INR2,718.1/US\$41.9
Free Float	93%
Shares in issue (mn)	1,595.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR5,040.4/US\$77.7
52-week range	1,802/1,183
Sensex/Nifty	33,266/10,364
INR/US\$	64.8

**Price Performance**

%	1M	6M	12M
Absolute	-2.1	11.0	23.8
Relative*	-7.9	-0.2	4.0

\* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Profit	70,922	74,424	84,309	96,773	112,835
Net Profit (YoY) (%)	18.4%	4.9%	13.3%	14.8%	16.6%
Assets (YoY) (%)	13.7%	16.5%	15.8%	16.5%	17.0%
ROA (%)	2.4%	2.2%	2.2%	2.2%	2.2%
ROE (%)	20.4%	18.8%	18.9%	19.4%	20.1%
EPS	41.9	43.5	50.2	58.2	68.3
EPS (YoY) (%)	18.4%	3.9%	15.2%	15.9%	17.4%
<b>P/E (x)</b>	<b>40.7</b>	<b>39.2</b>	<b>34.0</b>	<b>29.3</b>	<b>25.0</b>
BV	216	249	281	318	362
BV (YoY) (%)	9.8%	15.1%	13.1%	13.2%	13.7%
<b>P/BV (x)</b>	<b>7.90</b>	<b>6.86</b>	<b>6.07</b>	<b>5.36</b>	<b>4.72</b>

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2017

## HDFC–SOTP valuation

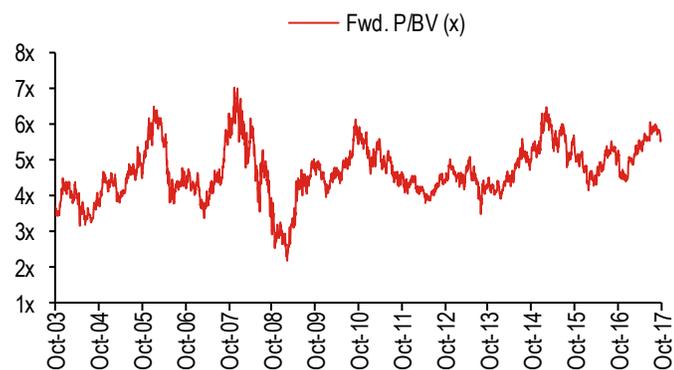
- **Maintain BUY with 12M TP of Rs 1,890:** With pick up in corporate loan growth, we expect HDFC to report stronger core numbers, as NII growth improves. We arrive at our 12M TP of Rs 1,890 by valuing the parent at 2.8x Mar'20 BV, implying a standalone value of Rs 1,015 per share and Rs 875 as the value of listed associates and other subsidiaries (net of cost of investments and a 10% holding company discount).
- **Key risks:** 1) Lower-than-expected loan growth, and 2) aggressive competition by banks can affect spreads negatively.

### Exhibit 1. HDFC: New SOTP valuations

HDFC SOTP	Holding (%)	Valuation Methodology	Value per Share	Contribution to TP (%)
HDFC - Parent	100.0%	2.8x fwd adj. BPS #	1,015	54%
HDFC Bank Stake	21.6%	CMP	628	33%
HDFC Standard Life*	61.6%	Appraisal Value	227	12%
Asset Management	59.9%	5% of AUM	51	3%
HDFC Ergo	50.7%	5x Book	36	2%
HDFC Alternative Fund		15% of AUM	4	0%
Gruh Finance	58.6%	CMP	62	3%
Less: Cost of investments			(52)	-3%
Less: Holding Co. discount (@10%)*			(80)	-4%
<b>Total</b>			<b>1,890</b>	<b>100%</b>

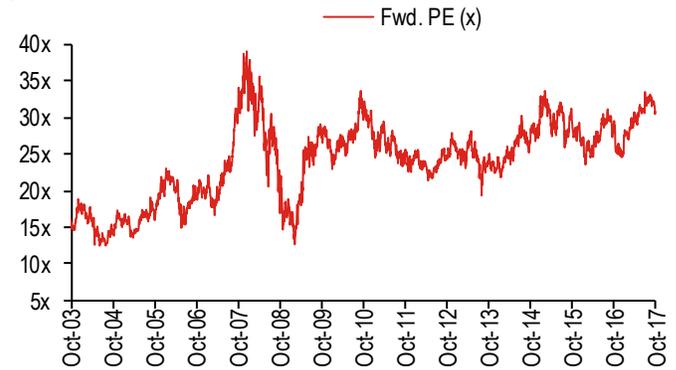
Source: Company, JM Financial, \*Discount applied for listed subsidiaries/associates. #adjusted for interest Cost of Zero coupon NCD which is charged directly to securities premium account. \*\* Based on Current market price of Max Financial Services.

### Exhibit 2. HDFC: One-year forward P/BV (x)



Source: Company, JM Financial

### Exhibit 3. HDFC: One-year forward P/E (x)



Source: Company, JM Financial

**Exhibit 4. HDFC: Quarterly trends in loan book and AUM growth and mix**

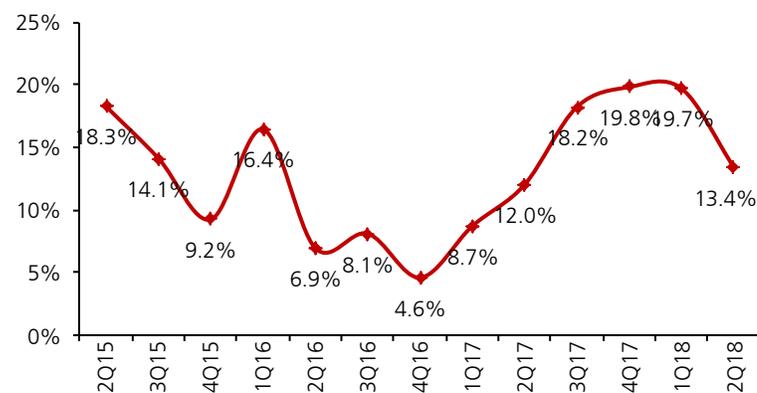
AUM (Rs bn)	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Individuals Loans (on-books)	1,453	1,522	1,557	1,596	1,656	1,737	1,800	1,853	1,935	1,993	2,044	2,147	2,231
Add: Sell-downs	208	211	252	278	291	290	323	357	359	375	413	420	434
Individuals (Gross of sell-downs)	1,661	1,733	1,808	1,874	1,947	2,027	2,123	2,210	2,294	2,369	2,457	2,568	2,666
Corporate Bodies	670	678	725	716	724	744	793	805	819	875	920	983	1,009
<b>Total</b>	<b>2,331</b>	<b>2,411</b>	<b>2,533</b>	<b>2,590</b>	<b>2,671</b>	<b>2,771</b>	<b>2,915</b>	<b>3,015</b>	<b>3,113</b>	<b>3,244</b>	<b>3,378</b>	<b>3,550</b>	<b>3,675</b>
AUM Growth YoY (%)	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Individuals Loans (on-books)	16.5%	16.2%	16.8%	15.2%	14.0%	14.2%	15.6%	16.1%	16.9%	14.7%	13.6%	15.9%	15.3%
Add: Sell-downs	25.8%	30.2%	21.7%	33.1%	40.3%	37.4%	28.4%	28.7%	23.1%	29.5%	27.8%	17.6%	21.1%
Individuals (Gross of sell-downs)	17.6%	17.8%	17.5%	17.5%	17.3%	17.0%	17.4%	18.0%	17.8%	16.8%	15.8%	16.2%	16.2%
Corporate Bodies	11.5%	10.5%	13.6%	10.5%	8.0%	9.7%	9.3%	12.3%	13.1%	17.7%	16.1%	22.1%	23.3%
<b>Total</b>	<b>15.7%</b>	<b>15.6%</b>	<b>16.3%</b>	<b>15.5%</b>	<b>14.6%</b>	<b>14.9%</b>	<b>15.1%</b>	<b>16.4%</b>	<b>16.5%</b>	<b>17.1%</b>	<b>15.9%</b>	<b>17.8%</b>	<b>18.1%</b>
AUM Mix (%)	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Individuals Loans (on-books)	62.3%	63.1%	61.5%	61.6%	62.0%	62.7%	61.7%	61.5%	62.2%	61.4%	60.5%	60.5%	60.7%
Add: Sell-downs	8.9%	8.8%	9.9%	10.7%	10.9%	10.5%	11.1%	11.9%	11.5%	11.6%	12.2%	11.8%	11.8%
Individuals (Gross of sell-downs)	71.2%	71.9%	71.4%	72.3%	72.9%	73.2%	72.8%	73.3%	73.7%	73.0%	72.8%	72.3%	72.5%
Corporate Bodies	28.8%	28.1%	28.6%	27.7%	27.1%	26.8%	27.2%	26.7%	26.3%	27.0%	27.2%	27.7%	27.5%
<b>Total</b>	<b>100%</b>												

Source: Company, JM Financial

**Exhibit 5. HDFC: Annual core and reported earnings**

HDFC PL (Rs bn)	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18E	FY19E	FY20E
NII (adj for cost of ZCBs)	73.7	79.8	92.0	110.9	126.8	150.4	8.3%	15.3%	20.5%	14.3%	18.7%
Core Non-interest Income	10.6	12.4	13.1	15.0	17.1	18.9	17.0%	5.5%	14.6%	14.0%	10.8%
<b>Total Core Income</b>	<b>84.3</b>	<b>92.2</b>	<b>105.1</b>	<b>125.9</b>	<b>143.8</b>	<b>169.4</b>	<b>9.4%</b>	<b>14.0%</b>	<b>19.8%</b>	<b>14.3%</b>	<b>17.7%</b>
Opex	7.1	7.6	8.4	9.2	10.1	11.1	7.4%	10.3%	9.7%	9.6%	10.2%
<b>Core Operating Profits</b>	<b>77.2</b>	<b>84.6</b>	<b>96.7</b>	<b>116.7</b>	<b>133.8</b>	<b>158.3</b>	<b>9.6%</b>	<b>14.4%</b>	<b>20.6%</b>	<b>14.6%</b>	<b>18.3%</b>
Add: Treasury	4.4	16.5	10.0	3.5	3.5	3.5					
Less: Provisions	1.7	7.2	7.0	4.2	4.9	5.6					
PBT	80.0	93.9	99.7	116.0	132.4	156.2					
<b>Core PBT</b>	<b>75.5</b>	<b>77.4</b>	<b>89.7</b>	<b>112.5</b>	<b>128.9</b>	<b>152.7</b>	<b>2.5%</b>	<b>15.9%</b>	<b>25.3%</b>	<b>14.6%</b>	<b>18.5%</b>
Less: Tax	24.2	27.7	30.3	34.7	40.1	47.7					
<b>Adjusted PAT (for ZCBs)</b>	<b>55.7</b>	<b>66.2</b>	<b>69.5</b>	<b>81.2</b>	<b>92.3</b>	<b>108.5</b>	18.8%	4.9%	16.9%	13.6%	17.6%
Less: Cost of ZCBs	4.2	4.7	5.0	4.6	4.4	4.4					
<b>Reported PAT</b>	<b>59.9</b>	<b>70.9</b>	<b>74.4</b>	<b>85.8</b>	<b>96.6</b>	<b>112.9</b>	<b>18.4%</b>	<b>4.9%</b>	<b>15.3%</b>	<b>12.6%</b>	<b>16.8%</b>
<b>Tax Rate (%)</b>	<b>30.3%</b>	<b>29.5%</b>	<b>30.4%</b>	<b>30.0%</b>	<b>30.3%</b>	<b>30.6%</b>					

Source: Company, JM Financial

**Exhibit 6. HDFC: Trends in Adj. NII growth (YoY) (%)**

Source: Company, JM Financial

## HDFC - 2Q18 Trends

## Exhibit 7. HDFC: 2Q18 - Results Summary

Earnings Table (Rs. mn.)	2Q'17	1Q'18	2Q'18	YoY (%)	QoQ (%)
<b>Adj. NII*</b>	<b>20,552</b>	<b>24,223</b>	<b>23,309</b>	<b>13.4%</b>	<b>-3.8%</b>
Fees and Other Charges	641	377	37	-94.3%	-90.2%
<b>Core Income</b>	<b>21,193</b>	<b>24,600</b>	<b>23,346</b>	<b>10.2%</b>	<b>-5.1%</b>
Dividends	4,560	599	5,366	17.7%	796.1%
Profit on sale of investments	281	21	654	132.9%	3001.4%
Other Income	118	125	104	-12.5%	-16.9%
<b>Non-Core income</b>	<b>4,960</b>	<b>745</b>	<b>6,124</b>	<b>23.5%</b>	<b>722.4%</b>
<b>Total Income</b>	<b>26,153</b>	<b>25,345</b>	<b>29,470</b>	<b>12.7%</b>	<b>16.3%</b>
Employee Cost	933	1,155	1,048	12.3%	-9.3%
Establishment expenses	213	294	218	2.4%	-25.9%
Other expenses	762	974	864	13.4%	-11.3%
Depreciation and Amortisation	140	113	118	-16.1%	3.8%
<b>Total Operating Expenses</b>	<b>2,048</b>	<b>2,536</b>	<b>2,248</b>	<b>9.7%</b>	<b>-11.4%</b>
<b>Operating Profit</b>	<b>24,105</b>	<b>22,808</b>	<b>27,222</b>	<b>12.9%</b>	<b>19.4%</b>
<b>Core Operating Profits</b>	<b>19,145</b>	<b>22,064</b>	<b>21,098</b>	<b>10.2%</b>	<b>-4.4%</b>
Total Provisions	950	850	950	0.0%	11.8%
PBT	23,155	21,958	26,272	13.5%	19.6%
Tax	6,487	7,476	7,108	9.6%	-4.9%
<b>Adjusted Profit</b>	<b>16,668</b>	<b>14,482</b>	<b>19,164</b>	<b>15.0%</b>	<b>32.3%</b>
Cost of ZCBs / FRNs	1,597	1,075	1,847	15.6%	71.8%
<b>Reported Profits</b>	<b>18,265</b>	<b>15,557</b>	<b>21,011</b>	<b>15.0%</b>	<b>35.1%</b>
<b>Loans (Rs bn)</b>					
<b>Loans Outstanding</b>	<b>2,754.1</b>	<b>3,129.8</b>	<b>3,240.8</b>	<b>17.7%</b>	<b>3.5%</b>
Total Assets	3,098.8	3,440.2	3,582.9	15.6%	4.1%
<b>Ratios Analysis (%)</b>					
Cumm. Spreads - Individual Segment	1.95%	1.90%	1.92%	-0.03%	0.02%
Cumm. Spreads - Non-Individual Segment	3.04%	3.18%	3.07%	0.03%	-0.11%
Cumm. Spreads - Total	2.28%	2.29%	2.29%	0.01%	0.00%
Cumm. NIM	3.85%	4.00%	3.90%	0.05%	-0.10%
Cost / Income ratio (%)	7.8%	10.0%	7.6%	-0.20%	-2.38%
Fees to Income	2.5%	1.5%	0.1%	-2.33%	-1.36%
Tax rate	28.0%	34.0%	27.1%	-0.96%	-6.99%
<b>Credit Quality</b>					
Gross NPAs (Rs. mn.)	21,080	35,130	37,010	75.6%	5.4%
Gross NPA (90 days overdue) (%)	0.76%	1.12%	1.14%	0.38%	0.02%
<b>Capital Adequacy (%)</b>					
Tier I (%)	13.30%	12.10%	12.60%	-0.70%	0.50%
CAR (%)	16.50%	14.70%	15.10%	-1.40%	0.40%
<b>Du-pont Analysis (%)</b>					
NII / Assets (%)	2.69%	2.85%	2.66%	-0.04%	-0.19%
Non-Interest Inc. / Assets (%)	0.73%	0.13%	0.70%	-0.03%	0.57%
Operating Cost / Assets (%)	0.27%	0.30%	0.26%	-0.01%	-0.04%
Operating Profits / Assets (%)	3.16%	2.68%	3.10%	-0.06%	0.42%
Provisions / Assets (%)	0.12%	0.10%	0.11%	-0.02%	0.01%
<b>ROA (%)</b>	<b>2.19%</b>	<b>1.70%</b>	<b>2.18%</b>	<b>0.00%</b>	<b>0.48%</b>

Source: Company, JM Financial

- Share of corporate loans in loan mix increased sequentially by 160bps, as growth in segment stood at 24% YoY.

**Exhibit 8. HDFC: Loan portfolio (on-book)-growth and composition (Rs bn)**

	2Q'17	1Q'18	2Q'18	YoY (%)	QoQ (%)
Individuals	1,935	2,147	2,231	15.3%	3.9%
Corporate Bodies	771	934	959	24.3%	2.6%
Others	47	48	50	6.2%	4.2%
<b>Total</b>	<b>2,754</b>	<b>3,130</b>	<b>3,241</b>	<b>17.7%</b>	<b>3.5%</b>
Individuals	70.3%	68.6%	68.9%	-1.4%	0.3%
Corporate Bodies	28.0%	29.9%	29.6%	1.6%	-0.3%
Others	1.7%	1.5%	1.6%	-0.2%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial

- AUM (loan portfolio adjusted for sell down) grew 18% YoY with composition of individual loans remaining stable at 72.5% of AUM.

**Exhibit 9. HDFC: Assets under management (AUM)**

	2Q'17	1Q'18	2Q'18	YoY (%)	QoQ (%)
O/S Individuals Loans	1,935	2,147	2,231	15.3%	3.9%
Add: Sell-downs	359	420	434	21.1%	3.3%
Individuals (Gross of sell-downs)	2,294	2,568	2,666	16.2%	3.8%
Corporate Bodies	819	983	1,009	23.3%	2.7%
<b>Total</b>	<b>3,113</b>	<b>3,550</b>	<b>3,675</b>	<b>18.1%</b>	<b>3.5%</b>
O/S Individuals Loans	62.2%	60.5%	60.7%	-1.5%	0.2%
Add: Sell-downs	11.5%	11.8%	11.8%	0.3%	0.0%
Individuals (Gross of sell-downs)	73.7%	72.3%	72.5%	-1.2%	0.2%
Corporate Bodies	26.3%	27.7%	27.5%	1.2%	-0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial

- Contribution of term loans within overall borrowings increased 140bps QoQ to 13.0%.

**Exhibit 10. HDFC: Borrowings—growth and composition**

Borrowings (Rs bn)	2Q'17	1Q'18	2Q'18	YoY (%)	QoQ (%)
Term Loans	296	332	390	31.9%	17.6%
Bonds, Debentures, CPs	1,416	1,677	1,711	20.8%	2.0%
Deposits	843	853	902	6.9%	5.7%
<b>Total</b>	<b>2,555</b>	<b>2,862</b>	<b>3,003</b>	<b>17.5%</b>	<b>4.9%</b>
Term Loans	11.6%	11.6%	13.0%	1.4%	1.4%
Bonds, Debentures, CPs	55.4%	58.6%	57.0%	1.5%	-1.6%
Deposits	33.0%	29.8%	30.0%	-3.0%	0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial

- Overall cumulative spreads remained stable at 229bps.

**Exhibit 11. HDFC: Trend in spreads and NIM (%)**

	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
<b>Spreads</b>	<b>2.31%</b>	<b>2.32%</b>	<b>2.31%</b>	<b>2.29%</b>	<b>2.26%</b>	<b>2.28%</b>	<b>2.34%</b>	<b>2.33%</b>	<b>2.29%</b>	<b>2.29%</b>
Spread - Individual	1.97%	1.97%	1.97%	1.94%	1.92%	1.95%	2.02%	1.99%	1.90%	1.92%
Spread - Non-individual	3.06%	3.10%	3.09%	3.10%	3.06%	3.04%	3.09%	3.09%	3.18%	3.07%
<b>Reported NIM</b>	<b>3.80%</b>	<b>3.95%</b>	<b>3.85%</b>	<b>4.10%</b>	<b>3.80%</b>	<b>3.85%</b>	<b>3.95%</b>	<b>4.10%</b>	<b>4.00%</b>	<b>3.90%</b>

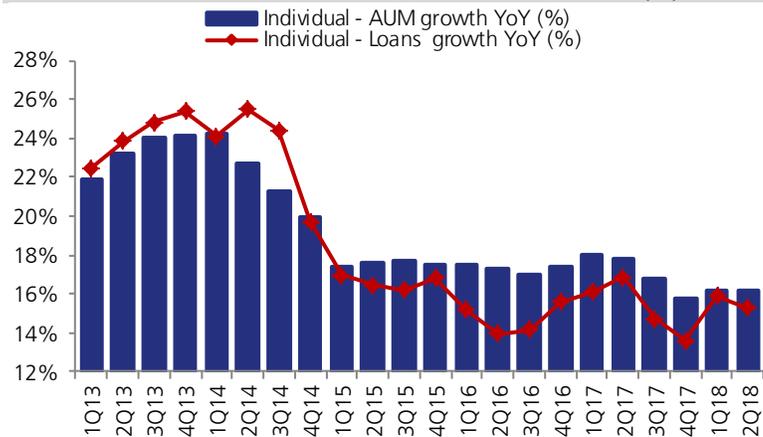
Source: Company, JM Financial

Exhibit 12. HDFC: Trends in loan portfolio (on-book)

	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
Individuals	1,596	1,656	1,737	1,800	1,853	1,935	1,993	2,044	2,147	2,231
Corporate Bodies	716	724	744	793	805	819	875	920	983	1,009
<b>Total</b>	<b>2,312</b>	<b>2,380</b>	<b>2,481</b>	<b>2,592</b>	<b>2,657</b>	<b>2,754</b>	<b>2,869</b>	<b>2,965</b>	<b>3,130</b>	<b>3,241</b>
Individuals	69.0%	69.6%	70.0%	69.4%	69.7%	70.3%	69.5%	69.0%	68.6%	68.9%
Corporate Bodies	31.0%	30.4%	30.0%	30.6%	30.3%	29.7%	30.5%	31.0%	31.4%	31.1%
<b>Total</b>	<b>100%</b>									

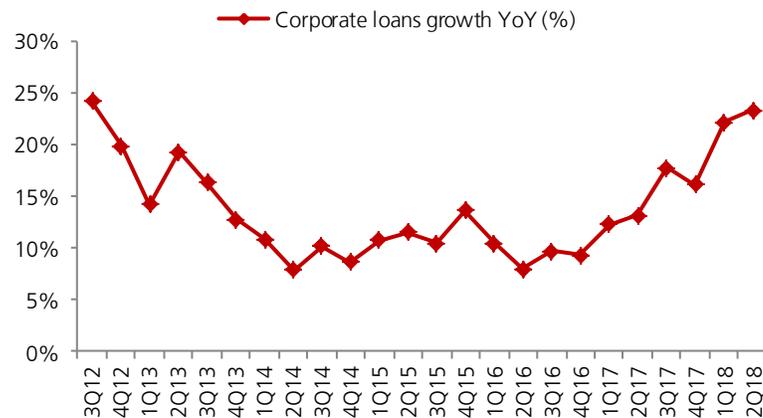
Source: Company, JM Financial

Exhibit 13. HDFC: Growth trends in individual loans and AUM (%)



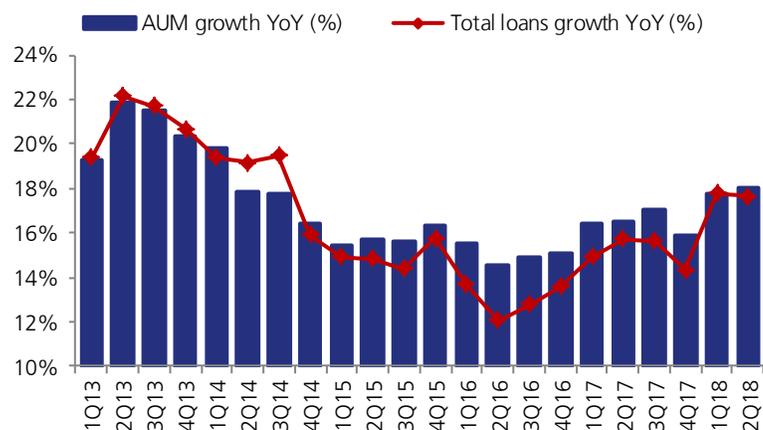
Source: Company, JM Financial

Exhibit 14. HDFC: Growth trends in corporate loans (%)



Source: Company, JM Financial

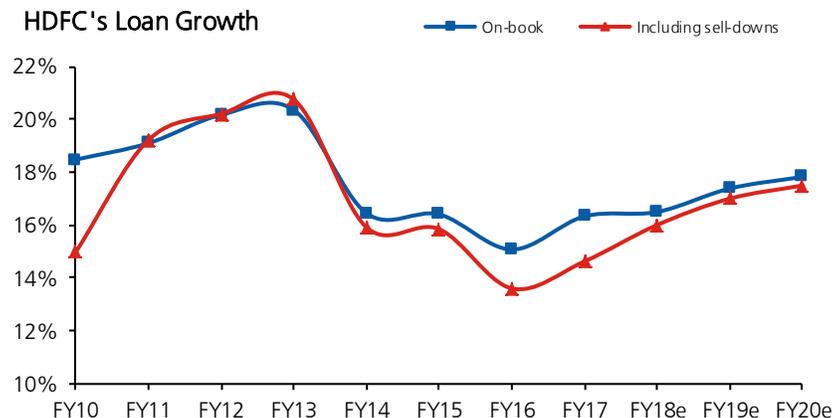
Exhibit 15. HDFC: Growth trends in total loans and AUM (%)



Source: Company, JM Financial

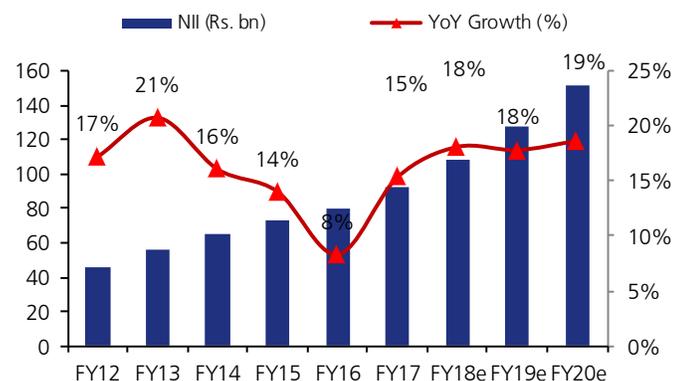
## HDFC - Annual Trends

Exhibit 16. HDFC: Trend in loan growth



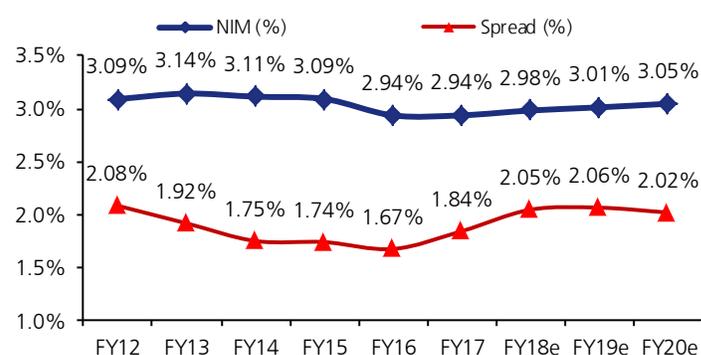
Source: Company, JM Financial

Exhibit 17. HDFC: Trend in NII



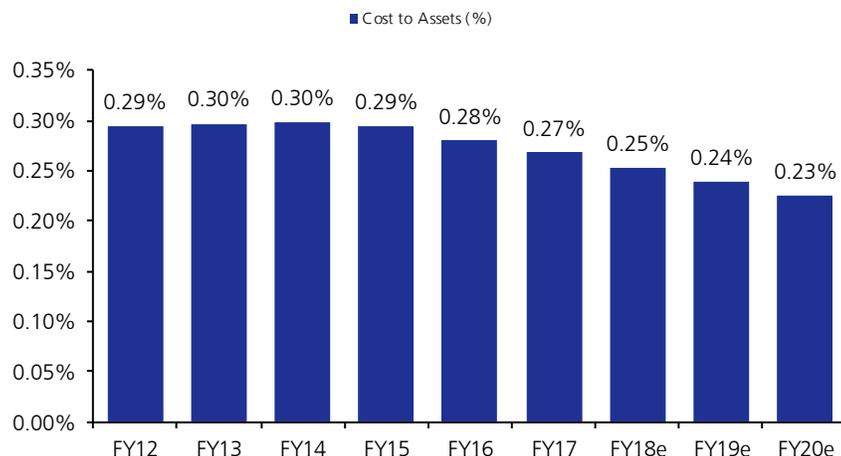
Source: Company, JM Financial

Exhibit 18. HDFC: Trend in NII/AUM (%)



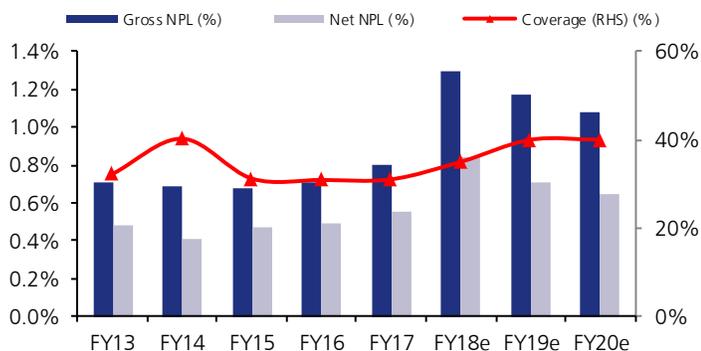
Source: Company, JM Financial

Exhibit 19. HDFC: Trend in cost to assets



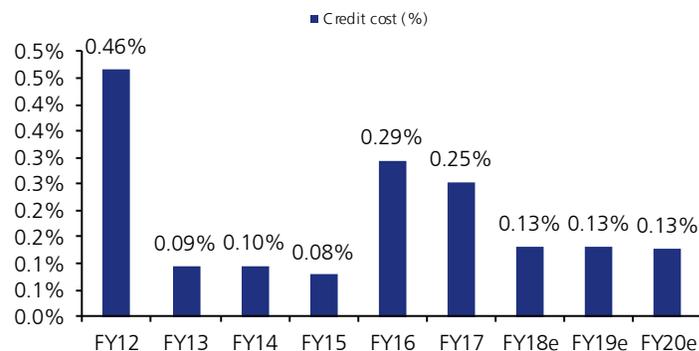
Source: Company, JM Financial

**Exhibit 20. HDFC: Trend in asset quality**



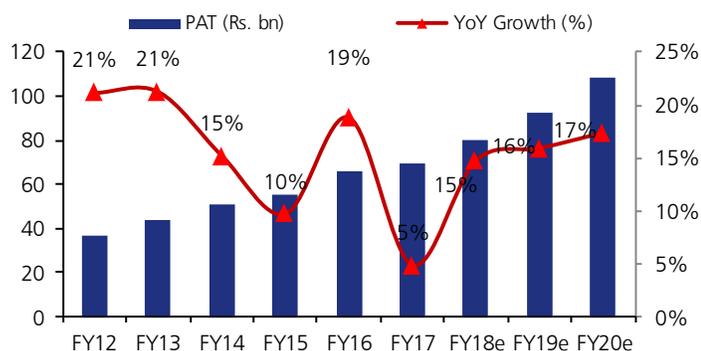
Source: Company, JM Financial

**Exhibit 21. HDFC: Trend in credit costs**



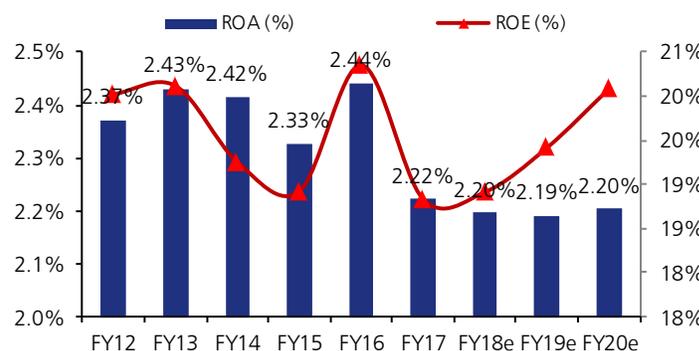
Source: Company, JM Financial

**Exhibit 22. HDFC: Trend in earnings growth**



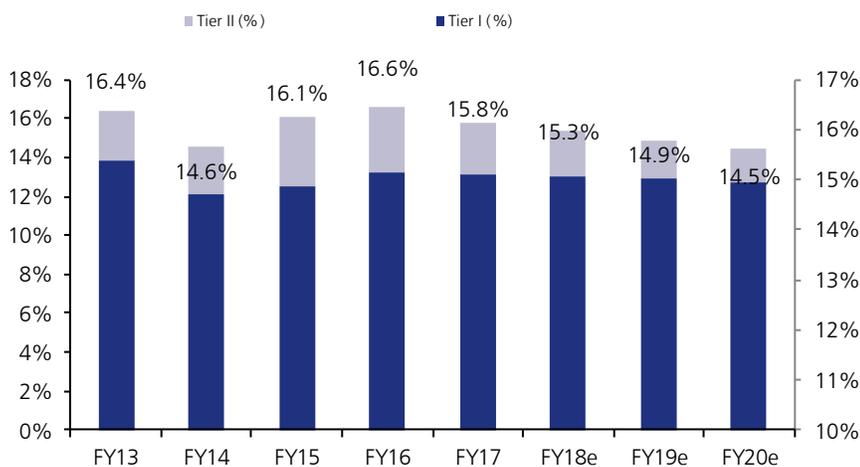
Source: Company, JM Financial

**Exhibit 23. Trend in return ratios**



Source: Company, JM Financial

**Exhibit 24. HDFC: Trend in tier-I capital and CAR**



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Interest Income (NII)	79,784	92,024	108,683	128,040	151,923
Non Interest Income	28,867	23,092	16,807	19,488	20,895
<b>Total Income</b>	<b>108,651</b>	<b>115,116</b>	<b>125,489</b>	<b>147,528</b>	<b>172,818</b>
Operating Expenses	7,590	8,368	9,180	10,061	11,090
<b>Pre-provisioning Profits</b>	<b>101,061</b>	<b>106,748</b>	<b>116,309</b>	<b>137,467</b>	<b>161,728</b>
Loan-Loss Provisions	2,555	4,366	3,727	4,313	4,904
Others Provisions	4,425	2,158	0	0	0
<b>Total Provisions</b>	<b>7,150</b>	<b>7,000</b>	<b>4,228</b>	<b>4,914</b>	<b>5,555</b>
<b>PBT</b>	<b>93,911</b>	<b>99,748</b>	<b>112,082</b>	<b>132,553</b>	<b>156,173</b>
Tax	27,672	30,285	32,375	40,160	47,719
<b>PAT (Pre-Extra ordinaries)</b>	<b>66,240</b>	<b>69,464</b>	<b>79,707</b>	<b>92,393</b>	<b>108,454</b>
Extra ordinaries (Net of Tax)	4,683	4,960	4,602	4,381	4,381
<b>Reported Profits</b>	<b>70,922</b>	<b>74,424</b>	<b>84,309</b>	<b>96,773</b>	<b>112,835</b>
Dividend	31,380	28,681	29,740	33,457	39,033
<b>Retained Profits</b>	<b>39,543</b>	<b>45,742</b>	<b>54,569</b>	<b>63,316</b>	<b>73,802</b>

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Equity Capital	3,160	3,177	3,177	3,177	3,177
Reserves & Surplus	338,051	393,277	443,244	502,180	571,601
Stock option outstanding	0	0	0	0	0
Borrowed Funds	2,376,392	2,797,322	3,258,880	3,773,783	4,370,040
Deferred tax liabilities	0	0	0	0	0
Preference Shares	169,926	169,804	189,175	257,809	364,147
Current Liabilities & Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>2,887,528</b>	<b>3,363,579</b>	<b>3,894,475</b>	<b>4,536,949</b>	<b>5,308,966</b>
Net Advances	2,586,582	2,964,720	3,439,075	4,023,718	4,727,869
Investments	153,454	204,101	229,757	250,229	273,521
Cash & Bank Balances	54,765	64,617	76,675	91,722	110,137
Loans and Advances	58,198	59,294	68,782	80,474	94,557
Other Current Assets	27,883	64,423	73,443	83,725	95,446
Fixed Assets	6,645	6,423	6,745	7,082	7,436
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	0	0	0	0	0
<b>Total Assets</b>	<b>2,887,528</b>	<b>3,363,579</b>	<b>3,894,475</b>	<b>4,536,949</b>	<b>5,308,966</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Growth (YoY) (%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Borrowed funds	13.9%	17.7%	16.5%	15.8%	15.8%
Advances	13.6%	14.6%	16.0%	17.0%	17.5%
Total Assets	13.7%	16.5%	15.8%	16.5%	17.0%
NII	8.3%	15.3%	18.1%	17.8%	18.7%
Non-interest Income	92.4%	-20.0%	-27.2%	16.0%	7.2%
Operating Expenses	7.4%	10.3%	9.7%	9.6%	10.2%
Operating Profits	23.8%	5.6%	9.0%	18.2%	17.6%
Core Operating profit	9.6%	14.4%	17.7%	17.7%	18.1%
Provisions	333.3%	-2.1%	-39.6%	16.2%	13.0%
Reported PAT	18.4%	4.9%	13.3%	14.8%	16.6%
<b>Yields / Margins (%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest Spread	1.67%	1.84%	2.05%	2.06%	2.02%
NIM	2.94%	2.94%	2.98%	3.01%	3.05%
<b>Profitability (%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
ROA	2.44%	2.22%	2.20%	2.19%	2.20%
ROE	20.4%	18.8%	18.9%	19.4%	20.1%
Cost to Income	7.0%	7.3%	7.3%	6.8%	6.4%
<b>Asset quality (%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Gross NPA	0.71%	0.80%	1.29%	1.18%	1.08%
LLP	0.29%	0.25%	0.13%	0.13%	0.13%
<b>Capital Adequacy (%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tier I	13.20%	13.08%	13.00%	12.88%	12.74%
CAR	16.60%	15.79%	15.34%	14.88%	14.45%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
NII / Assets	2.94%	2.94%	2.99%	3.04%	3.09%
Other Income / Assets	1.06%	0.74%	0.46%	0.46%	0.42%
Total Income / Assets	4.00%	3.68%	3.46%	3.50%	3.51%
Cost / Assets	0.28%	0.27%	0.25%	0.24%	0.23%
PPP / Assets	3.72%	3.42%	3.20%	3.26%	3.29%
Provisions / Assets	0.26%	0.22%	0.12%	0.12%	0.11%
PBT / Assets	3.46%	3.19%	3.09%	3.14%	3.17%
Tax rate	29.5%	30.4%	31.0%	32.0%	32.0%
ROA	2.44%	2.22%	2.20%	2.19%	2.20%
Leverage	8.5	8.5	8.7	9.0	9.2
ROE	20.4%	18.8%	18.9%	19.4%	20.1%

Source: Company, JM Financial

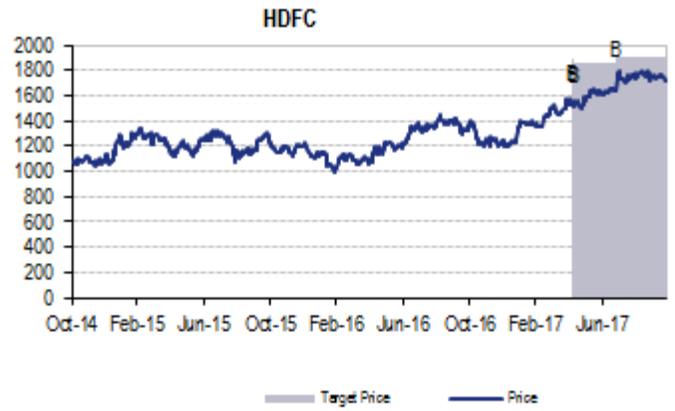
Valuations					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shares in Issue	1,579.9	1,595.1	1,588.7	1,588.7	1,588.7
EPS (INR)	41.9	43.5	50.2	58.2	68.3
EPS (YoY) (%)	18.4%	3.9%	15.2%	15.9%	17.4%
P/E (x)	40.7	39.2	34.0	29.3	25.0
BV (INR)	216	249	281	318	362
BV (YoY) (%)	9.8%	15.1%	13.1%	13.2%	13.7%
P/BV (x)	7.90	6.86	6.07	5.36	4.72
DPS (INR)	19.9	18.0	18.7	21.1	24.6
Div. yield (%)	1.2%	1.1%	1.1%	1.2%	1.4%

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
5-May-17	8.8		10.0		1,886	
8-May-17	10.9	23.9	12.4	24.0	1,865	-1.1
27-Jul-17	17.0	56.9	19.8	59.4	1,904	2.1

Recommendation History



## APPENDIX I

### JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: [sunny.shah@jmfl.com](mailto:sunny.shah@jmfl.com)

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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