RESULT UPDATE

HDFC BANK

Maintains momentum, but growth falls short of expectations

India Equity Research| Banking and Financial Services

HDFC Bank's Q4FY18 earnings sustained 20% YoY growth momentum but core operating profit growth was softer—up <25% versus 30% plus over the past couple of quarters. The miss was due to sharp moderation in loan growth (sub-20% YoY); surprising given better market opportunities in corporate segment (PSU fallout). Meanwhile, deposits grew a strong 13% QoQ, which along with capital raising will provide growth runway to the bank. Asset quality held in good stead amidst concerns over RBI's recent recognition norms. Key monitorables: a) loan growth returning to ~25% driving core NII growth; and b) sustenance of NIMs at ~4.3% with recent dip in CD ratio. Best-in-class franchise, marginal stress baggage and proposed equity raising (pending government approval) place HDFC Bank in a sweet spot to capitalise on emerging opportunities. Maintain 'BUY'.

Loan growth falls short of expectation

Loan growth was lower than expected (at sub-20% YoY versus >27% YoY). Retail growth was broadly on track (up >27%), barring some blip in housing (no home loan bought from parent over two quarters due to GST-related clarifications). Softer growth in the non-retail book (up merely <10% YoY, albeit on a higher base) disappointed, as market opportunity and lower stress pool provided bank with relatively free growth runway. Armed with strong capital, scale benefits, wide distribution, faster TAT and better services, HDFC Bank is well placed to garner maximum benefits of churn in competition. However, at the same time, it will be wary of pricing war.

Asset quality benign

Asset quality remained benign, quashing concerns of uncertainty on RBI's directive on stress recognition, with GNPLs/NNPLs broadly stable at 1.3%/0.4% and credit cost being restricted to sub-100bps. Low restructured book (0.1%), nil 5:25 & SDR and ~INR14.5bn floating provisions lend comfort. Marginal stress baggage places the bank in a sweet spot to capitalise on high yielding opportunities (personal loans, credit cards, etc).

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—>25% CAGR over FY18-20E—and sustains superior return ratios (RoA of 2%). We maintain **'BUY/SO'** with TP of INR2,454 (at 4x FY20E P/ABV).

Financials (INR mn)

Year to March	Q4FY18	Q4FY17	*Growth %*	Q3FY18	*Growth %*	FY18	FY19E	FY20E
Net revenue	1,48,863	1,25,014	*19.1*	1,41,835	*5.0*	5,53,152	6,64,021	7,92,978
Net profit	47,993	39,901	*20.3*	46,426	*3.4*	1,74,868	2,20,499	2,75,975
Dil. EPS (INR)	18.3	15.4	*18.8*	17.7	*3.4*	67.4	80.9	101.3
Adj. BV (INR)						402.6	537.4	613.1
Price/ Adj book (x)						4.9	3.6	3.2
Price/ Earnings (x)						29.0	24.2	19.3

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 1,956
Target Price	: INR 2,454
52-week range (INR)	: 2,015 / 1,450
Share in issue (mn)	: 2,595.1
M cap (INR bn/USD mn)	: 5,076 / 76,525
Avg. Daily Vol.BSE/NSE('000)	: 1,553.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	20.9	21.0	21.0
MF's, FI's & BK's	12.4	11.6	11.6
FII's	33.1	33.9	33.9
Others	33.7	33.4	33.4

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	6.6	4.3	2.8
3 months	0.4	(3.0)	(8.3)
12 months	34.1	15.6	14.3

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Table 1: Summary of Q4FY18 financials

(INR mn)	Q4FY18	Q4FY17	Growth (%)	Q3FY18	Growth (%)	Comments
Net interest income	1,06,577	90,551	*17.7*	1,03,143	*3.3*	NII came below estimates following lower than estimated loan growth (at < 19% versus 27% in previous quarter). NIMs settled at upper end of guided range (at 4.3% stable QoQ)
Other income	42,286	34,463	*22.7*	38,692	*9.3*	Other income impacted by lower treasury income (loss of INR220mn versus gain of INR1.8bn in Q3FY18)
Operating expenses	60,506	52,220	*15.9*	57,322	*5.6*	Bank is not only focused on rationalising cost but also realigning processes to improve productivity; expects cost/income ratio to dip further
Staff expense	17,412	16,527	*5.4*	16,913	*3.0*	
Other opex	43,094	35,693	*20.7*	40,410	*6.6*	
Pre prov op profit (PPP)	88,357	72,794	*21.4*	84,513	*4.5*	Core profitability was lower than estimate following lower loan growth
Provisions	15,411	12,618	*22.1*	13,514	*14.0*	Credit cost was curtailed at sub 100bps
Profit before tax	72,946	60,176	*21.2*	70,999	*2.7*	
Provision for tax	24,953	20,275	*23.1*	24,573	*1.5*	
Profit after tax	47,993	39,901	*20.3*	46,426	*3.4*	Profitability continues to trace 20% growth trend
EPS (INR)	18.3	15.4	*18.8*	17.7	*3.4*	
Balance sheet (INR bn)						
Advances	6,583	5,546	*18.7*	6,312	*4.3*	Loan growth was lower than expectation, surprising given better market opportunities in the corporate segment (PSU fallout)
Deposits	7,888	6,436	*22.5*	6,990	*12.8*	Meanwhile, deposits grew a strong 13% QoQ, which along with capital raising will provide growth runway to the bank
Investments	2,422	2,145	*12.9*	2,327	*4.1*	
Asset quality (INR bn)						
Gross NPA	86.1	58.9	*46.2*	82.3	*4.5*	Asset quality remained benign, quashing concerns of uncertainty on RBI's directive on stress recognition
Gross NPA (%)	1.3	1.1		1.3		
Net NPA	26.0	18.4	*41.1*	27.7	*(6.2)*	
Net NPA (%)	0.4	0.3		0.4		
Provision coverage (%)	69.8	68.7		66.3		

Source: Company, Edelweiss research

Table 2: Advance growth at sub 19% YoY levels; CD ratio dip to <84%

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Advances (INR bn)	5,546	5,810	6,049	6,312	6,583
Advances growth Q-o-Q (%)	12.0	4.8	4.1	4.4	4.3
Advances growth Y-o-Y (%)	19.4	23.4	22.3	27.5	18.7
Deposits (INR bn)	6,436	6,714	6,893	6,990	7,888
Deposit growth Q-o-Q (%)	1.4	4.3	2.7	1.4	12.8
Deposit growth Y-o-Y (%)	17.8	17.0	16.5	10.1	22.5
CD ratio (%)	86.2	86.5	87.7	90.3	83.5

Source: Company

Table 3: Core fee income sustains traction; profitability impacted by lower treasury

(INR bn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	*Y-o-Y (%)*
Fees & commissions	25.2	25.8	26.1	28.7	33.3	*32.0*
Forex & deri. rev.	3.6	3.0	3.8	4.3	4.2	*16.7*
Total fee income	28.8	28.7	30.0	33.0	37.5	*30.1*
% of revenue	27.6	27.3	27.0	27.3	28.4	

Source: Company

Table 4: Asset quality steady quashing concerns of impact of RBI's classification norm

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Gross NPA (INR mn)	58,857	72,429	77,028	82,349	86,070
Gross NPA (%)	1.1	1.2	1.3	1.3	1.3
Growth Q-o-Q (%)	12.5	23.1	6.3	6.9	4.5
Net NPA (INR mn)	18,440	26,282	26,968	27,737	26,010
Net NPA (%)	0.3	0.4	0.4	0.4	0.4
Growth Q-o-Q (%)	17.9	42.5	2.6	2.8	(6.2)
Prov. cov. (%)	68.7	63.7	65.0	66.3	69.8

Source: Company

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

(%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
NIMs (rep)	4.3	4.4	4.3	4.3	4.3
ROA (quarterly)	0.5	0.5	0.5	0.5	0.5

Source: Company

Table 6: Cost-to-income ratio at ~41%; expects to improve further

(%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Cost-income ratio	41.8	41.6	41.5	40.4	40.6
Tax rate	33.7	34.7	34.5	34.6	34.2

Source: Company

Table 7: SA growth optically softer on higher base; CASA ratio still at 43.5%

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	*Q-o-Q (%)*
Savings account (INR bn)	1,936	1,931	1,977	2,058	2,238	*8.7*
Current account (INR bn)	1,156	1,020	978	1,013	1,193	*17.8*
CASA %	48.0	44.0	42.9	43.9	43.5	
Time deposit %	52.0	56.0	57.1	56.1	56.5	
Total deposits (INR bn)	**6,436**	**6,714**	**6,893**	**6,990**	**7,888**	***12.8***

Source: Company

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

(%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Retail	51.2	52.1	53.6	53.8	55.1
Non retail	48.8	47.9	46.4	46.2	44.9
Retail loans break-up:					
Auto Loans	21.9	21.8	21.3	21.5	21.1
Personal Loans	17.6	18.3	18.7	19.7	19.8
CVs	6.8	6.5	6.2	6.3	6.5
Loan Against Securities	0.5	0.5	0.5	0.5	0.5
2-Wheelers	2.2	2.2	2.1	2.3	2.4
Business Banking	12.8	13.4	14.0	13.9	14.9
Credit Cards	9.2	9.6	9.5	9.9	10.0
Housing loans	13.5	12.8	12.3	11.2	10.0
Others	13.8	13.3	13.7	13.2	13.4
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)	Q4FY18	Q4FY17	*YoY (%)*	Q3FY18	*QoQ (%)*
Auto	860	701	*22.6*	825	*4.2*
Personal Loans	724	505	*43.3*	675	*7.3*
Home Loans	363	384	*(5.5)*	381	*(4.9)*
Kisan Gold Card	355	288	*23.1*	317	*12.0*
Credit Cards	361	260	*38.9*	336	*7.4*
CV/CE	459	379	*21.1*	425	*8.0*
Others	178	157	*13.3*	181	*(1.5)*
Two Wheelers	96	73	*31.4*	92	*4.6*
Gold Loans	54	49	*9.6*	53	*1.9*
Loans against securities	39	28	*38.2*	35	*11.8*
Total Retail Advances	3,489	2,826	*23.5*	3,320	*5.1*
Add : Business Banking	1,095	818	*33.9*	1,008	*8.6*
Total Retail Advances (Including business banking)	**4,584**	**3,644**	***25.8***	**4,329**	***5.9***

Source: Company

Financial snapshot **(INR mn)**

Year to March	Q4FY18	Q4FY17	*% change*	Q3FY18	*% change*	FY17	FY18E	FY19E
Interest income	213,211	181,144	*17.7*	205,813	*3.6*	693,060	802,414	957,703
Interest exp	106,634	90,593	*17.7*	102,669	*3.9*	361,667	401,465	475,300
Net int. inc. (INR mn)	106,577	90,551	*17.7*	103,143	*3.3*	331,392	400,949	482,402
Other income	42,286	34,463	*22.7*	38,692	*9.3*	122,965	152,203	181,619
Net revenues	148,863	125,014	*19.1*	141,835	*5.0*	454,357	553,152	664,021
Operating expenses	60,506	52,220	*15.9*	57,322	*5.6*	197,033	226,904	263,209
Staff expense	17,412	16,527	*5.4*	16,913	*3.0*	64,837	68,057	76,817
Other opex	43,094	35,693	*20.7*	40,410	*6.6*	132,197	158,846	186,392
Pre prov op profit (PPOP)	88,357	72,794	*21.4*	84,513	*4.5*	257,324	326,248	400,813
Provisions	15,411	12,618	*22.1*	13,514	*14.0*	35,933	59,275	66,724
Profit before tax	72,946	60,176	*21.2*	70,999	*2.7*	221,391	266,973	334,089
Provision for taxes	24,953	20,275	*23.1*	24,573	*1.5*	75,894	92,106	113,590
PAT	47,993	39,901	*20.3*	46,426	*3.4*	145,496	174,868	220,499
Diluted EPS (INR)	18.3	15.4	*18.8*	17.7	*3.4*	56.8	67.4	80.9
Ratios								
NII/GII (%)	50.0	50.0		50.1		47.8	50.0	50.4
Cost/income (%)	40.6	41.8		40.4		43.4	41.0	39.6
Provisions / PPOP	17.4	17.3		16.0		14.0	18.2	16.6
Tax rate (%)	34.2	33.7		34.6		34.3	34.5	34.0
Bal. sheet data (INR bn)								
Advances	6,583	5,546	*18.7*	6,312	*4.3*	5,546	6,583	8,229
Deposits	7,888	6,436	*22.5*	6,990	*12.8*	6,436	7,888	9,336
Investments	2,422	2,145	*12.9*	2,327	*4.1*	2,145	2,422	2,664
Asset quality								
Gross NPA (INR bn)	86.1	58.9	*46.2*	82.3	*4.5*	58.9	86.1	113.4
Gross NPA (%)	1.3	1.1		1.3		1.0	1.3	1.3
Net NPA (INR bn)	26.0	18.4	*41.1*	27.7	*(6.2)*	18.4	26.0	23.5
Net NPA (%)	0.4	0.3		0.4		0.3	0.4	0.3
Provision coverage (%)	69.8	68.7		66.3		68.7	69.8	79.3
B/V per share (INR)						349.1	409.6	543.4
Adj book value / share						344.1	402.6	537.4
Price/ Adj. book (x)						5.7	4.9	3.6
Price/ Earnings						34.4	29.0	24.2

Q4FY18 Earnings Call Takeaways

With respect to Growth

- ***Corporate loan growth has been healthy but looks little subdued due to higher base in Q4FY17. Overall there is a focus on wholesale lending in line with the bank's strategy and due to prevailing market situation. That said the credit environment is something to be careful about.***
- Issues pertaining to the agriculture book has not completely settled and is volatile because of the crop cycle. They have created contingency provisioning towards this portfolio in this quarter of around INR2bn. Also, they remain cautiously focused on this portfolio for growth.
- In the previous quarters, loan growth was frontloaded and deposits lagged. This quarter the focus was on deposits and CD ratio normalized to 83%. Going forward, on an annualized basis, both should be at par.
- ***Term deposit mix – Retail accounts for 73% of the overall while Q3FY18 was 77%. The management feels that this growth is not a one off and that every month has seen significant deposit growth over the past quarter***
  - ***This growth was primarily driven by the bond investors coming back to deposits due to increase in yields and partial inching up in deposit rates***
- The retail environment remains fairly competitive from rate and payout perspective. Hence, happy to let a marginal business go if not in our range of returns and risks.
- Infra is not a large part of our portfolio – but tapping into few selected pockets where the growth seems to be strong
- ***Some segments of SME showing some bounce back after impact of GST. On exporters per say no meaningful trend reversion has emerged.***

With respect to Asset quality

- Asset quality holding on well with GNPLs at 1.3%.
- ***Total slippages came in at 1.72% - Addition of – INR27.9bn, Reductions – INR24.2bn, Upgrades - INR8.1bn, Write backs – INR7.0b, Recoveries - INR8.9bn***
- Floating provisions increased during the quarter due to release against earlier provisioned two accounts.

With respect to Operational Metrics

- Overall opex perspective – increased digitization plus internal operations specially on retail lending side helping improve productivity and efficiency. That's visible in the lowering C/I ratio over the last few quarters. No of employees during the year has grown purely due to overall growth of the bank
- ***Fee income growth has been strong on a full year basis (>30%). Insurance, retail asset fees, credit cards and MF distribution have contributed to the overall growth. Small impact of surge in yields on the investment gains. But no one offs and looks sustainable***
- ***4.1%-4.3% NIM range to hold atleast in the near future***

Others

- ***<u>Govt. approvals awaited for capital raise (>INR50bn for foreign capital). MFS, CCEA approvals required as FIPB scrapped. (Shareholder approval valid for a year).</u>***
- No plans of listing subsidiaries as of now.
- HDB product range much different from what we offer and hence not eating up into our business per say
- INR600bn worth of reverse repo was done in the last week of March and would be utilized in the early part of April

Q3FY18 Earnings Call Takeaways

With respect to asset quality

- The bank divergence (for FY17) consisted of 3 accounts of INR20.5bn
  - ***This included one account, which was to be declared NPL starting March 2016, but given the satisfactory performance of account (since march 2016) and Nil over dues for the banks in JLF, thus the JLF has upgraded this account. Thus at the end of the quarter this is upgraded.***
  - The other 2 accounts were already classified as NPLs earlier
- ***The company made a contingent provisions in Q2FY18 towards an account (pending RBI supervision) of INR7bn (of which INR3bn was from floating and INR4n was created), but post the upgrade of this account the bank has recouped the provision, and consequently INR3bn has been taken to contingency provision and INR4bn has been made towards higher general provisions***
- The GNPLs in agri. segment stands at 5-6% (which is atleast couple of percentage points higher than NPLs a year ago)
- Slippages during the quarter were INR1.67bn. There was no sale to ARC during the quarter.
- ***Floating provisions now stands at INR13.26bn.***
- Specific provisions during the quarter at INR14.4bn
- Write-off during the quarter was INR10bn

With respect to growth metrics

- Even at the system level the growth has been improving , part of that was reflective of slightly better demand and other being the return of loan demand to banks which were cannibalised by bond markets earlier. In terms of bank management highlighted that it has capability to capture on both retail as well as wholesale segment.
- Advances growth came in at 27.5% and deposit growth at 10% , having said that there were some base effect for both (higher for deposits and lower for advances). The deposit grew 4% QoQ and advances grew 4.4% QoQ.
  - Loan growth was broad based in nature across retail and corporate segments and now proportion is 55% retail and 45% wholesale
  - The unsecured piece still continues to grow, this quarter higher proportion of retail growth has come from secured segment.
  - Housing loan book has seen a sequential decline during the quarter as there was no purchase during the quarter, and should normalise from next quarter.
  - The management highlighted that the SME segment has still not fully evolved from the GST impact and the transition is still underway.
- With the pick-up in loan growth there is rising pressure on banks to gear up on deposits. The bank sees this to be the inflexion point when the race for deposits start heating up.
- Other income grew by 23% YoY largely supported by commissions income which grew > 30% YoY (the rate of growth looks optically higher as December 2017 was a fairly lower base). ***Having said that, sequential growth in fee income has been on expected***

lines with growth coming from TPP (MF distribution and Insurance) and higher processing charges on retail loans (especially auto loans)

Other highlights

- Core cost / income ratio at 41%, the bank expects the improving trend to continue.
- The capital raising is not done keeping in mind any particular segment and product for growth. The bank have raised capital keeping in broad based growth opportunities and capital consumption (the growth in risk assets is higher than sustainable growth metrics thus capital consumption has been higher).
- ***50% of the personal loans (incremental) is to banks customers and 70% on credit card side (incremental) is to banks customers***
- While the bank has opted for bancassurance tie-up, currently the other 2 life insurance players are given certain channels and branch distribution is with HDFC Life, Having said that as and when the other two companies integrate their systems to the bank the branch distribution will be opened for then as well.
- ***Total customer base is 42-43mn***
- Branches: 4734 branches and Employee base : 86.6K

Company Description

HDFC Bank has a balance sheet size stands at INR10.6tn at the end of Q4FY18. It is amongst the leading private sector banks with a market cap over INR5tn. The key promoter, HDFC, holds ~22% stake, and FIIs and public hold the balance. The distribution network comprises of 4,787 branches and 12,635 ATMs in ~2,691 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

Re-basing of earnings growth from a stupendous 30% to a respectable 20% is being perceived as a cause for concern; however, we beg to differ. The bank's strategic choice to take the lead in rolling out rural/semi-urban infrastructure will ensure that despite regulatory challenges and volatility in economic cycles it will deliver over 20% CAGR over the medium term—a feat few can boast of. This will result in earnings growth exceeding asset growth, leading to RoA of 2%. Best in class liability franchise coupled with buildup in rural/semi urban branches will ensure the bank maintains above industry earning growth leading to sustained best in class return ratios.

Key Risks

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

Higher than expected delinquencies due to the loan mix and also vulnerable 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	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Op. metric assump. (%)				
Yield on advances	10.2	10.3	10.2	9.9
Yield on investments	8.4	7.1	7.4	7.5
Yield on asset	9.3	8.7	8.8	9.0
Cost of funds	5.1	4.6	4.7	4.9
Net interest margins	4.5	4.4	4.4	4.5
Cost of deposits	5.3	4.8	4.8	5.0
Cost of borrowings	7.6	5.9	6.1	7.0
Spread	4.2	4.1	4.1	4.1
Balance sheet assumption (%)				
Credit growth	22.2	18.8	24.8	24.8
Deposit growth	17.8	22.5	18.4	26.4
SLR ratio	23.1	20.5	20.3	20.0
Low-cost deposits	48.0	43.5	45.0	46.5
Net NPA ratio	0.3	0.4	0.3	0.3
Net NPA / Equity	2.1	2.4	1.6	1.7
Capital adequacy	14.6	14.8	16.5	15.0
Incremental slippage	1.5	2.1	1.7	1.7
Provision coverage	68.7	67.1	79.3	80.7

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	693,060	802,414	957,703	1,159,204
Interest expended	361,667	401,465	475,300	579,768
Net interest income	331,392	400,949	482,402	579,435
Non interest income	122,965	152,203	181,619	213,543
- Fee & forex income	100,749	131,013	157,216	188,659
- Misc. income	10,909	11,503	11,904	12,385
- Investment profits	11,307	9,687	12,500	12,500
Net revenue	454,357	553,152	664,021	792,978
Operating expense	197,033	226,904	263,209	303,762
- Employee exp	64,837	68,057	76,817	85,036
- Other opex	132,197	158,846	186,392	218,726
Preprovision profit	257,324	326,248	400,813	489,216
Provisions	35,933	59,275	66,724	71,073
Loan loss provisions	31,453	45,421	64,224	69,073
Other provisions	4,557	13,854	2,500	2,000
Profit Before Tax	221,391	266,973	334,089	418,143
Less: Provision for Tax	75,894	92,106	113,590	142,169
Profit After Tax	145,496	174,868	220,499	275,975
Reported Profit	145,496	174,868	220,499	275,975
Shares o /s (mn)	2,563	2,595	2,724	2,724
Adj. Diluted EPS (INR)	56.8	67.4	80.9	101.3
Dividend per share (DPS)	11.0	13.0	15.8	19.8
Dividend Payout Ratio(%)	23.3	19.3	19.5	24.0

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
NII growth	20.1	21.0	20.3	20.1
Fees growth	12.1	30.0	20.0	20.0
Opex growth	16.0	15.2	16.0	15.4
PPOP growth	19.3	28.7	22.7	22.8
Provisions growth	31.8	65.0	12.6	6.5
Adjusted Profit	18.3	20.2	26.1	25.2

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	10.2	10.3	10.2	9.9
Yield on investments	8.4	7.1	7.4	7.5
Yield on assets	9.3	8.7	8.8	9.0
Cost of funds	5.1	4.6	4.7	4.9
Net interest margins	4.5	4.4	4.4	4.5
Cost of deposits	5.3	4.8	4.8	5.0
Cost of borrowings	7.6	5.9	6.1	7.0
Spread	4.2	4.1	4.1	4.1
Cost-income	43.4	41.0	39.6	38.3
Tax rate	34.3	34.5	34.0	34.0

Balance sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	5,125	5,190	5,449	5,449
Reserves & Surplus	889,498	1,057,760	1,474,957	1,684,695
Net worth	894,624	1,062,950	1,480,406	1,690,144
Sub bonds/pref cap	131,820	141,820	151,820	161,820
Deposits	6,436,397	7,887,706	9,335,750	11,799,906
Total Borrowings	608,469	1,089,230	553,630	663,330
Other liabilities	567,093	457,637	502,338	553,334
Total liabilities	**8,638,402**	**10,639,343**	**12,023,943**	**14,868,533**
Loans	5,545,682	6,583,331	8,229,164	10,286,455
Cash and Equivalents	489,521	1,229,151	635,999	728,114
Gilts	1,624,187	1,840,272	2,002,599	2,492,647
Others	520,446	581,730	661,240	753,732
Fixed assets	36,267	36,072	33,626	30,277
Other Assets	422,298	368,787	461,316	577,308
Total assets	**8,638,402**	**10,639,343**	**12,023,943**	**14,868,533**
Credit growth	22.2	18.8	24.8	24.8
Deposit growth	17.8	22.5	18.4	26.4
EA growth	20.2	24.0	18.2	18.5
SLR ratio	23.1	20.5	20.3	20.0
C-D ratio	90.0	87.1	91.8	90.6
Low-cost deposits	48.0	43.5	45.0	46.5
Provision coverage	68.7	67.1	79.3	80.7
Gross NPA ratio	1.0	1.3	1.3	1.4
Net NPA ratio	0.3	0.4	0.3	0.3
Incremental slippage	1.5	2.1	1.7	1.7
Net NPA / Equity	2.1	2.4	1.6	1.7
Capital adequacy	14.6	14.8	16.5	15.0
- Tier 1	12.8	13.2	14.9	13.4

RoE decomposition (%)

Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	4.5	4.4	4.4	4.5
Fees/Assets	1.5	1.5	1.6	1.6
Invst. profits/Assets	0.2	0.1	0.1	0.1
Net revenues/assets	6.1	6.0	6.1	6.1
Operating expense/assets	(2.7)	(2.5)	(2.4)	(2.4)
Provisions/assets	(0.5)	(0.6)	(0.6)	(0.6)
Taxes/assets	(1.0)	(1.0)	(1.0)	(1.1)
Total costs/assets	(4.2)	(4.1)	(4.1)	(4.0)
ROA	2.0	1.9	2.0	2.1
Equity/assets	10.9	10.6	11.7	12.3
ROAE (%)	17.9	17.9	17.3	17.4

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	56.8	67.4	80.9	101.3
Y-o-Y growth (%)	*16.7*	*18.7*	*20.1*	*25.2*
BV per share (INR)	349.1	409.6	543.4	620.4
Adj. BV per share (INR)	344.1	402.6	537.4	613.1
Diluted P/E (x)	34.4	29.0	24.2	19.3
Price/ BV (x)	5.6	4.8	3.6	3.2
Price/ Adj. BV (x)	5.7	4.9	3.6	3.2
Dividend Yield (%)	0.6	0.7	0.8	1.0

Peer comparison valuation

	Market cap	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	**(USD mn)**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
HDFC Bank	76,525	24.2	19.3	3.6	3.2	17.3	17.4
Axis Bank	20,021	15.3	12.5	1.9	1.7	12.0	13.2
DCB Bank	932	18.6	14.9	2.2	1.9	11.9	13.0
Federal Bank	2,945	13.7	10.9	1.5	1.3	10.8	12.3
ICICI Bank	28,311	13.0	9.6	2.2	1.9	13.2	16.3
IndusInd Bank	16,732	24.3	19.1	4.0	3.4	17.4	18.8
Karnataka Bank	689	5.9	4.8	0.6	0.6	10.0	11.5
Kotak Mahindra Bank	33,441	29.6	24.3	4.2	3.6	15.0	15.9
Yes Bank	11,155	12.6	9.5	2.5	2.0	20.3	22.4
Median		13.7	12.5	2.2	1.9	12.0	15.9
AVERAGE		15.5	12.9	2.2	2.0	12.9	15.3

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
Partho Datta	Director	Bobby Parikh	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
JP Morgan Chase & Co	19.06	Capital Group Companies Inc	7.35
Life Insurance Corp Of India	2.00	SBI Funds Management	1.82
FIL Limited	1.40	HDFC Asset Management Co Ltd	1.26
Vontobel Holding AG	1.23	GIC Private Limited	1.13
Schroders PLC	1.12	ICICI Prudential Life Insurance	1.10

**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
28 Mar 2018	Manoj Sadgurunath Nadkarni	Sell	30000.00
05 Feb 2018	Rakesh Singh	Sell	42000.00
05 Feb 2018	Prem Chand	Sell	23000.00
30 Jan 2018	Atul Sadashiv Barve	Sell	19500.00
30 Jan 2018	Madhusoodan G Hegde	Sell	17557.00

**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	HOLD	SU	M
Bajaj Finserv	BUY	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	BUY	SP	L
Indiabulls Housing Finance	BUY	SP	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	BUY	SO	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	SP	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	HOLD	SU	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	M
South Indian Bank	BUY	SO	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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Date: 2018.04.21 22:18:08 +05'30'

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
21-Apr-18	**Insurance**	Premiums growth moderates, exacerbated by base effect; *Sector Update*		
20-Apr-18	**IndiaBulls Housing Finance**	Ends FY18 on a high note ; *Result Update*	1,356	Buy
19-Apr-18	**IndusInd Bank**	Strong strides towards Phase IV targets ;	1,833	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

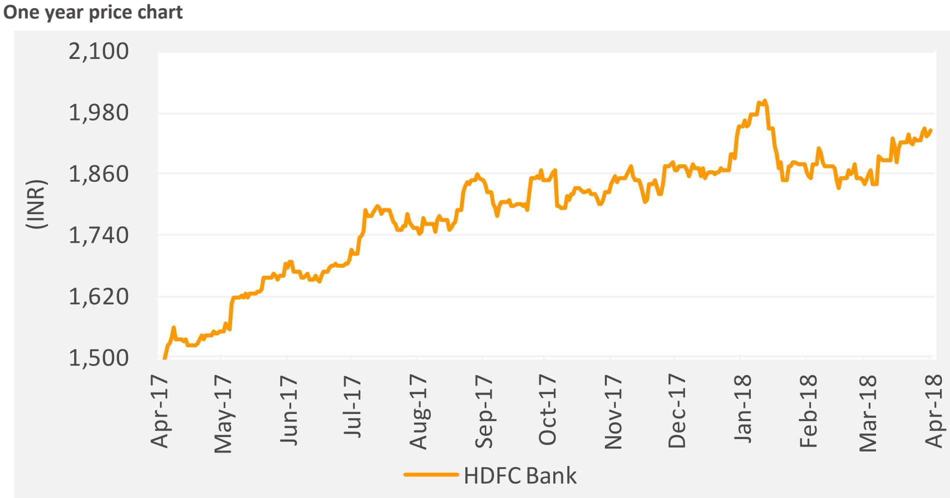
* 1stocks under review

	> 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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