

HDFC Bank

Enviably performance in challenging environment

April 21, 2018

R Sreesankar

rsreesankar@plindia.com / +91-22-66322214

Pritesh Bumb

priteshbumb@plindia.com / +91-22-66322232

Shweta Daptardar

shwetadaptardar@plindia.com / +91-22-66322245

Vidhi Shah

vidhishah@plindia.com / +91-22-66322258

| | |
|----------------|------------|
| Rating | BUY |
| Price | Rs1,966 |
| Target Price | Rs2,251 |
| Implied Upside | 14.5% |
| Sensex | 34,465 |
| Nifty | 10,564 |

(Prices as on April 20, 2018)

Trading data

| | |
|----------------------------|---------|
| Market Cap. (Rs bn) | 5,101.0 |
| Shares o/s (m) | 2,595.0 |
| 3M Avg. Daily value (Rs m) | 2868.5 |

Major shareholders

| | |
|----------------|--------|
| Promoters | 25.60% |
| Foreign | 40.43% |
| Domestic Inst. | 14.97% |
| Public & Other | 19.00% |

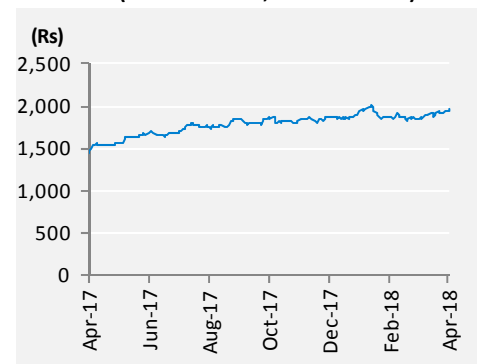
Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-----|-------|------|
| Absolute | 6.9 | 6.2 | 34.5 |
| Relative | 2.4 | (0.2) | 17.3 |

How we differ from Consensus

| EPS (Rs) | PL | Cons. | % Diff. |
|----------|------|-------|---------|
| 2019 | 81.4 | 82.6 | -1.4 |
| 2020 | 98.1 | 100.5 | -2.4 |

Price Perf. (RIC: HDBK.BO, BB: HDFCB IN)



Source: Bloomberg

HDFCB continued its strong 20% YoY earnings growth trajectory at Rs47.99bn (PL: 47.88bn). NII was lower than expectations on back of sharp deposit growth leading to higher interest cost. Slower NII was offset by strong other income growth of 23% YoY especially from fees and with controlled opex, PPOP grew by 21% YoY. Asset quality was stable with PCR increasing ~350bps QoQ to ~70% and floating provisions stood at Rs14.5bn (increased on some reversals). Loan growth trajectory should be strong ahead, liability franchise remains robust and stable margins to help better NII growth. Also, fees have started to contribute to income but credit cost to remain at 60-65bps of loans leading to an earnings CAGR of 20-21% with strong return ratios. Retain BUY with increased TP of Rs2,251 (up from Rs2,136) based on 4.3x Mar-20 ABV (rolled from Sep-20). Remains as one of our top picks in a challenging environment.

■ **NII slightly lower, fee income remains strong:** NII growth of ~18% YoY was below expectations on back of higher interest cost as bank saw strong inflow of term deposits (14% QoQ growth) but with better mix between CASA & loan growth, NIMs remained stable at 4.3%. What was commendable was very strong fee income growth of 32% (FY18-29% YoY v/s FY17-16%) mainly on TPP fees, card issuances fees & spends and retail loan processing fees and bank hopes it will continue ahead. Strong other income and controlled opex (core C/I at 40.7% v/s 41.2% QoQ) led to PPOP growth of 21% YoY.

■ **Strong deposits build-up; retail loans continues to fire up:** Loan growth momentum slightly slowed down to ~19% YoY as non-retail book grew slower at ~10% YoY but retail continued to grow strong at 28% YoY from all segments except for housing as it did not retain its originations (seeking clarity on GST). While on liabilities, bank garnered strong term deposits on seeking to catch up from slower growth in last few quarters and having raised subordinate capital by 9MFY18, going ahead expects both deposits & loans to grow in tandem.

■ **Asset quality stable with strong improvement in coverage ratios:** Asset quality ratios remained stable, but PCR improved ~350bps QoQ touching ~70% as bank maintained the credit cost at ~70bps of loans. Also, bank saw reversals from two specific asset from regulatory recognition on recovery and reversed back to floating provisions which stood at Rs14.5bn.

| Key financials (Y/e March) | 2017 | 2018 | 2019E | 2020E |
|----------------------------|---------|---------|---------|---------|
| Net interest income | 331,392 | 372,024 | 478,842 | 573,698 |
| Growth (%) | 20.1 | 12.3 | 28.7 | 19.8 |
| Operating profit | 257,324 | 297,762 | 387,477 | 460,333 |
| PAT | 145,496 | 146,380 | 211,307 | 254,616 |
| EPS (Rs) | 57.2 | 68.0 | 81.4 | 98.1 |
| Growth (%) | 17.0 | 18.9 | 19.8 | 20.5 |
| Net DPS (Rs) | — | 10.9 | 13.0 | 16.0 |

| Profitability & Valuation | 2017 | 2018 | 2019E | 2020E |
|---------------------------|------|------|-------|-------|
| NIM (%) | 4.13 | 3.87 | 4.13 | 4.19 |
| RoAE (%) | 17.9 | 15.0 | 18.4 | 19.1 |
| RoAA (%) | 1.81 | 1.52 | 1.82 | 1.86 |
| P / BV (x) | 5.6 | 4.8 | 4.2 | 3.6 |
| P / ABV (x) | 6.0 | 5.1 | 4.5 | 3.8 |
| PE (x) | 34.4 | 28.9 | 24.1 | 20.0 |
| Net dividend yield (%) | — | 0.6 | 0.7 | 0.8 |

Source: Company Data; PL Research

Exhibit 1: Operating performance continues to be upbeat but NII was slightly low

| | (Rs m) | Q4FY18 | Q4FY17 | YoY gr. (%) | Q3FY18 | QoQ gr. (%) |
|---|----------------------------------|-----------------|-----------------|-------------|-----------------|-------------|
| <i>NII growth was below expectations on strong deposit growth but largely maintained margins</i> | Interest income | 2,13,211 | 1,81,144 | 17.7 | 2,05,813 | 3.6 |
| | Interest Expended | 1,06,634 | 90,593 | 17.7 | 1,02,669 | 3.9 |
| | Net interest income (NII) | 1,06,577 | 90,551 | 17.7 | 1,03,143 | 3.3 |
| <i>Other income was strong from strong fee growth across all segments whereas Fx income was slightly low due to bond yield movement</i> | - Treasury income | 220 | 1,804 | (87.8) | 2,594 | (91.5) |
| | Other income | 42,286 | 34,463 | 22.7 | 38,692 | 9.3 |
| | Total income | 1,48,863 | 1,25,014 | 19.1 | 1,41,835 | 5.0 |
| | Operating expenses | 60,506 | 52,220 | 15.9 | 57,322 | 5.6 |
| | -Staff expenses | 17,412 | 15,527 | 12.1 | 16,913 | 3.0 |
| <i>Bank continues to keep strong control on operating expenses</i> | -Other expenses | 43,094 | 36,693 | 17.4 | 40,410 | 6.6 |
| | Operating profit | 88,357 | 72,794 | 21.4 | 84,513 | 4.5 |
| | Core operating profit | 88,137 | 70,990 | 24.2 | 81,919 | 7.6 |
| <i>Credit cost still remain elevated at 70bps (annualized)</i> | Total provisions | 15,411 | 12,618 | 22.1 | 13,514 | 14.0 |
| | Profit before tax | 72,946 | 60,176 | 21.2 | 70,999 | 2.7 |
| | Tax | 24,953 | 20,275 | 23.1 | 24,573 | 1.5 |
| | Profit after tax | 47,993 | 39,901 | 20.3 | 46,426 | 3.4 |
| | | 2,13,211 | 1,81,144 | 17.7 | 2,05,813 | 3.6 |
| Balance sheet (Rs m) | | | | | | |
| | Deposits | 78,87,706 | 64,36,397 | 22.5 | 69,90,264 | 12.8 |
| | Advances | 65,83,331 | 55,45,682 | 18.7 | 63,12,147 | 4.3 |
| Profitability ratios | | | | | | |
| <i>Margins remained stable as bank maintains its mix between CASA and loan mix</i> | YoA – Calc | 10.3 | 10.3 | 4 | 10.5 | (12) |
| | CoF - Calc | 5.0 | 5.1 | (11) | 5.2 | (18) |
| | NIM - Rep | 4.3 | 4.3 | - | 4.3 | - |
| | RoaA | 1.9 | 1.9 | 2 | 2.0 | (7) |
| | RoaE | 18.5 | 18.3 | 22 | 18.9 | (34) |
| Asset Quality | | | | | | |
| <i>Overall asset quality remained stable, however agri portfolio is volatile</i> | Gross NPL (Rs mn) | 86,070 | 58,857 | 46.2 | 82,349 | 4.5 |
| | Net NPL (Rs mn) | 26,010 | 18,440 | 41.1 | 27,737 | (6.2) |
| | Gross NPL ratio | 1.3 | 1.1 | 25 | 1.3 | 1 |
| | Net NPL ratio | 0.4 | 0.3 | 7 | 0.4 | (4) |
| | Coverage ratio - Calc | 69.8 | 68.7 | 111 | 66.3 | 346 |
| Business & Other Ratios | | | | | | |
| <i>PCR Ratio improved back to its 70% levels up by 346bps QoQ. Holds floating provision of Rs14.5bn</i> | Low-cost deposit mix | 43.5 | 48.0 | (450) | 43.9 | (40) |
| | Cost-income ratio | 40.6 | 41.8 | (113) | 40.4 | 23 |
| | Non int. inc / total income | 28.4 | 27.6 | 84 | 27.3 | 113 |
| | Credit deposit ratio | 83.5 | 86.2 | (270) | 90.3 | (684) |
| | CAR | 14.8 | 14.6 | 20 | 15.5 | (70) |
| | Tier-I | 13.2 | 12.8 | 40 | 13.6 | (40) |

Source: Company Data, PL Research

Key Q4FY18 Concall Highlights

Balance sheet & Outlook

- **Loan book** – Growth continued to be strong in retail at 27% YoY, while corporate loan book grew mediocre at 9% YoY due to higher base effect. Retail book continues to do well despite facing competition. Corporate book which consists of better rated corporates, mid-market and biz banking continues to do well. **Outlook:** Bank will continue to see robust growth in all loan segments.
- **Deposits** – Bank saw surge in deposits as it grew its term deposits by 33% YoY with retail growing strong as bond yields increase. Retail constitutes 73% vs 77% in Q3FY18 of total deposits. CASA Ratio remained stable at 43.5%

Margins/Pricing/Yields

- Margins were largely stable at 4.3%. **Outlook** – Bank believes margin should be in range of 4.1%-4.3% as the mix of CASA and advances continue to be at similar level.

Fee income/Opex

- **Fees** – Fee growth continued to be strong with most segments (TPP both MF and Insurance, retail asset fees, credit card issuances and spends) growing at mid-20 levels. However, Fx related fees saw slightly lower growth due to bond yield movement.
- **Opex** – Staff expenses saw some additions this quarter due to increase in growth requirements despite improved efficiency in operations, while other opex was under control. C/I ratio continue to be low as productivity of earlier opened branches shows improvement.

Asset quality

- Bank saw Rs27.9bn of slippages in the quarter and total reductions amounted to Rs24.2bn. However, agri portfolio remains volatile and don't see much of improvement nor deterioration.
- **Credit cost/Provisions** – Credit cost overall has remained high at 70bps (annualized) as bank improved its PCR to 70% levels as earlier. Bank has reversed certain provisions done on earlier accounts (Govt related & metal sector) which got recovered and the provisions were added back to floating provisions.

Capital

- Bank has been awaiting government approvals on capital raising and is not keen on listing subs in near term for their capital requirement.

HDB Financial Services

- NII has grown by ~37% YoY whereas PAT has grown by 39% YoY.
- Total Loan book has grown by ~35% YoY at Rs435bn. The set of customers and pricing for the sub is completely different from the bank. Total branches are 1165 across 831 cities/towns.
- Asset quality was stable with GNPA at 1.6% and NNPA at 1.0%.

Exhibit 2: Strong retail loan book growth of 27.4% YoY led by unsecured and biz bank loans

| Loan Composition (Rs m) | Q4FY18 | Q4FY17 | YoY gr. (%) | Q3FY18 | QoQ gr. (%) |
|-------------------------------|------------------|------------------|-------------|------------------|-------------|
| Car Loans | 7,64,270 | 6,20,570 | 23.2 | 7,30,570 | 4.6 |
| CV loans | 2,33,910 | 1,92,210 | 21.7 | 2,14,030 | 9.3 |
| 2 wheeler loans | 86,720 | 62,900 | 37.9 | 76,910 | 12.8 |
| Sub-total - Auto Loans | 10,84,900 | 8,75,680 | 23.9 | 10,21,510 | 6.2 |
| Personal loans | 7,18,760 | 5,00,670 | 43.6 | 6,68,170 | 7.6 |
| Business banking | 5,41,260 | 3,62,350 | 49.4 | 4,69,890 | 15.2 |
| Loan against shares | 18,160 | 14,610 | 24.3 | 16,710 | 8.7 |
| Credit Cards | 3,61,150 | 2,59,950 | 38.9 | 3,36,220 | 7.4 |
| Home loans | 3,62,570 | 3,83,650 | (5.5) | 3,81,290 | (4.9) |
| Gold Loans | 50,650 | 48,000 | 5.5 | 50,570 | 0.2 |
| Other Retail | 4,87,440 | 3,91,800 | 24.4 | 4,49,290 | 8.5 |
| Retail Loans | 36,24,890 | 28,36,710 | 27.8 | 33,93,650 | 6.8 |
| Non Retail Loans | 29,58,441 | 27,08,972 | 9.2 | 29,18,497 | 1.4 |
| Total Advances | 65,83,331 | 55,45,682 | 18.7 | 63,12,147 | 4.3 |

Source: Company Data, PL Research

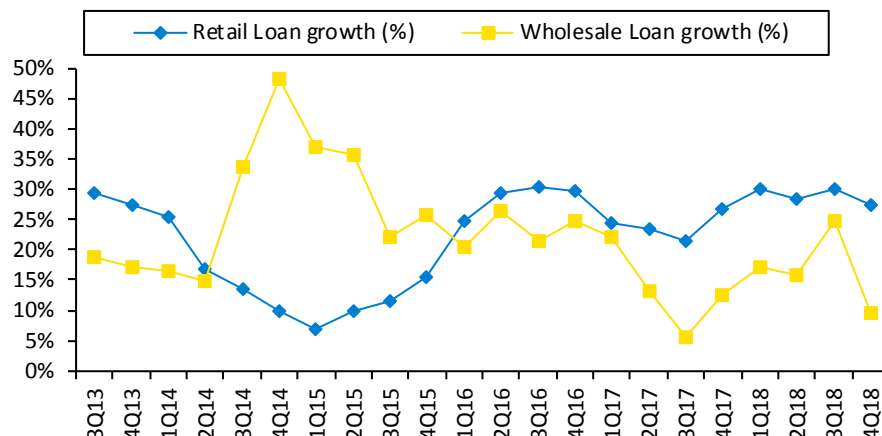
Exhibit 3: Loan book composition as per internal classification

| Loan Composition (Rs m) | Q4FY18 | Q4FY17 | YoY gr. (%) | Q3FY18 | QoQ gr. (%) |
|-------------------------------|------------------|------------------|-------------|------------------|-------------|
| Car Loans | 8,59,740 | 7,00,990 | 22.6 | 8,25,140 | 4.2 |
| CV loans | 4,59,390 | 3,79,370 | 21.1 | 4,25,480 | 8.0 |
| 2 wheeler loans | 96,480 | 73,450 | 31.4 | 92,240 | 4.6 |
| Sub-total - Auto Loans | 14,15,610 | 11,53,810 | 22.7 | 13,42,860 | 5.4 |
| Personal loans | 7,24,420 | 5,05,450 | 43.3 | 6,74,850 | 7.3 |
| Business banking | 10,95,070 | 7,11,880 | 53.8 | 10,08,100 | 8.6 |
| Loan against shares | 38,660 | 27,980 | 38.2 | 34,580 | 11.8 |
| Credit Cards | 3,61,150 | 2,59,950 | 38.9 | 3,36,220 | 7.4 |
| Home loans | 3,62,650 | 3,83,790 | (5.5) | 3,81,330 | (4.9) |
| Gold loans | 53,990 | 49,250 | 9.6 | 52,990 | 1.9 |
| Other Retail | 5,32,880 | 4,45,450 | 19.6 | 4,97,630 | 7.1 |
| Retail Total | 45,84,430 | 35,37,560 | 29.6 | 43,28,560 | 5.9 |

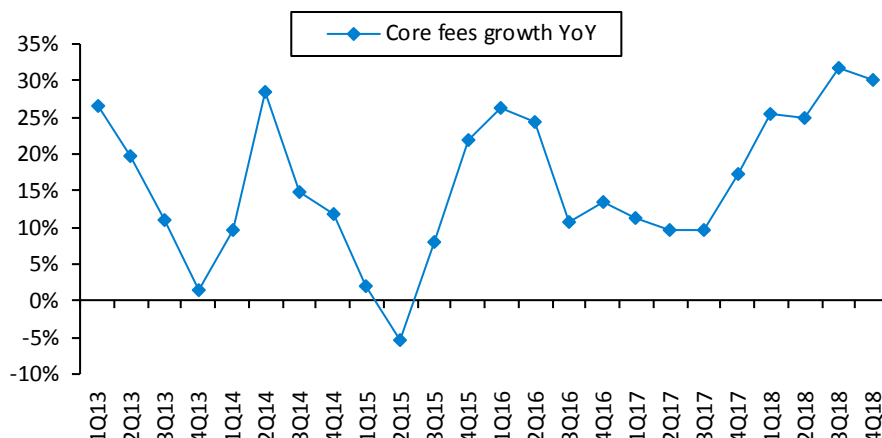
Source: Company Data, PL Research

Home loans growth was much slower as bank did not buyback any loans on seeking clarification on GST issues etc., however that being sort out bank will start buying loans next quarter onwards

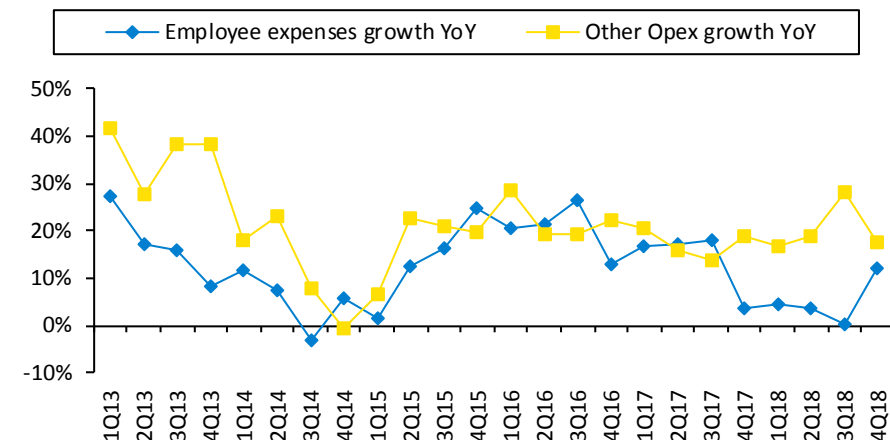
Business banking also saw improvement in growth especially as certain pockets of SME saw bounce back post GST

Exhibit 4: Retail loan continues to be strong, wholesale comes down on higher base effect


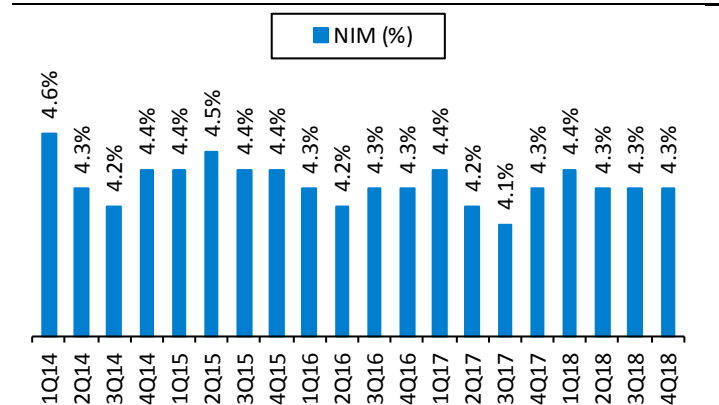
Source: Company Data, PL Research

Exhibit 5: Core fees was very strong despite base effect as all segments saw good growth


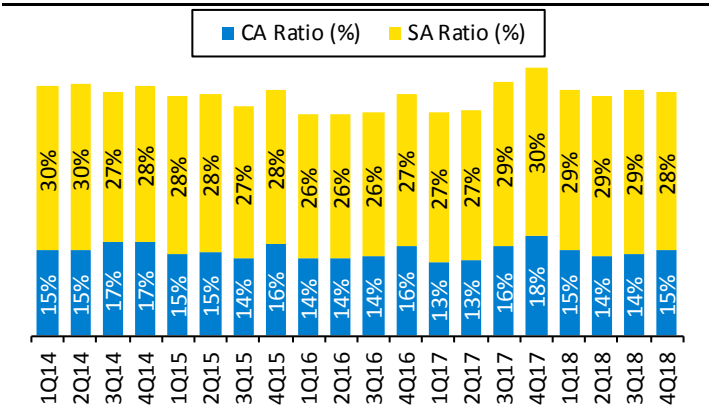
Source: Company Data, PL Research

Exhibit 6: Strong control on total opex but staff cost was slightly higher on additions


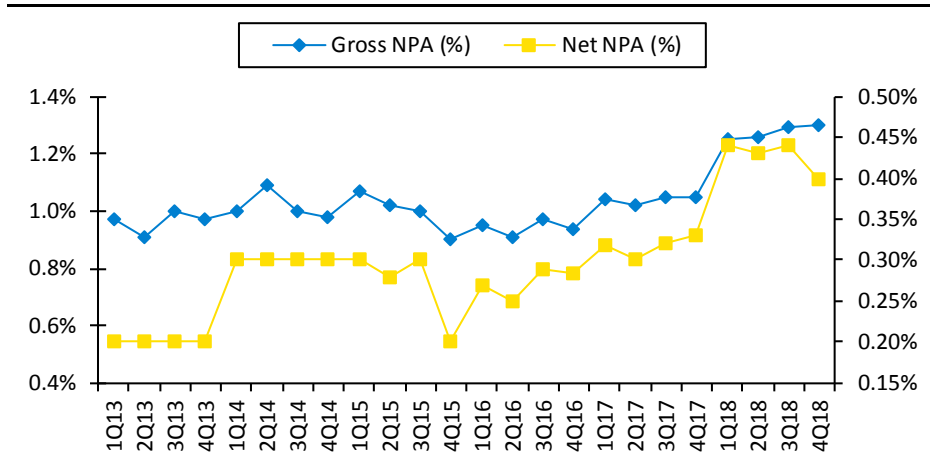
Source: Company Data, PL Research

Exhibit 7: Margins remained steady at 4.3%


Source: Company Data, PL Research

Exhibit 8: CASA mix remain stable at 43.5%


Source: Company Data, PL Research

Exhibit 9: Asset quality largely stable


Source: Company Data, PL Research

Exhibit 10: We increase our TP to Rs2,251 (from Rs2,136) as we rollover to Mar-20 on 4.3x ABV
PT calculation and upside

| | |
|---------------------------|--------------|
| Fair price – EVA | 2,253 |
| Fair price - P/ABV | 2,250 |
| Average of the two | 2,251 |
| Target P/ABV | 4.3 |
| Target P/E | 22.9 |
| Current price, Rs | 1961 |
| Upside (%) | 14.8% |
| Dividend yield (%) | 0.7% |
| Total return (%) | 15.6% |

Source: Company Data, PL Research

Exhibit 11: Change in earnings estimates – We have slightly tweak our estimates on business growth, other income and credit cost

| (Rs mn) | Old | | Revised | | % Change | |
|--------------------------|--------------|----------|--------------|----------|----------|-------|
| | FY19E | FY20E | FY19E | FY20E | FY19E | FY20E |
| Net interest income | 4,84,310 | 5,78,684 | 4,78,842 | 5,73,698 | (1.1) | (0.9) |
| Operating profit | 3,85,239 | 4,56,394 | 3,87,477 | 4,60,333 | 0.6 | 0.9 |
| Net profit | 2,15,968 | 2,62,262 | 2,11,309 | 2,54,619 | (2.2) | (2.9) |
| EPS (Rs) | 83.4 | 101.2 | 81.4 | 98.1 | (2.3) | (3.1) |
| ABVPS (Rs) | 455.1 | 537.2 | 441.7 | 517.7 | (3.0) | (3.6) |
| Price target (Rs) | 2,136 | | 2,251 | | | |
| Recommendation | BUY | | BUY | | | |

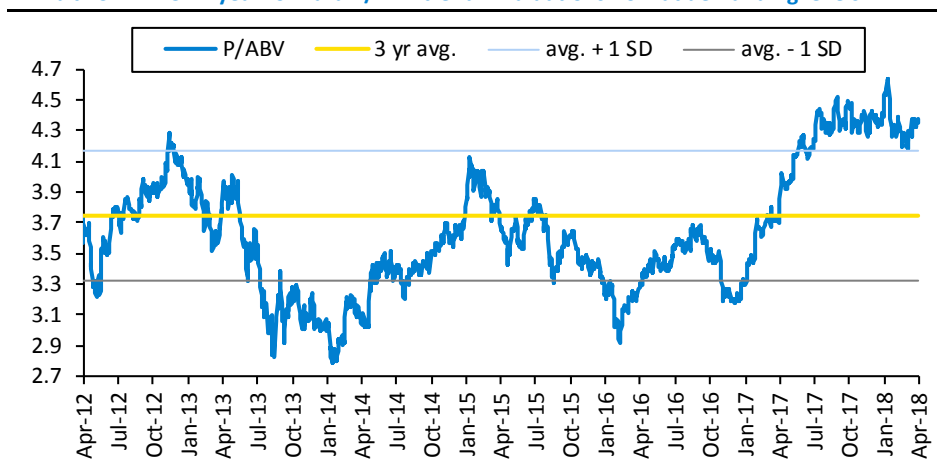
Source: Company Data, PL Research

Exhibit 12: Bank's ROA should see gradual improvement towards 2.0% by FY20

| RoA decomposition | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Interest income | 9.50 | 9.22 | 8.96 | 9.27 | 8.64 | 8.32 | 8.55 | 8.72 |
| Interest expenses | 5.22 | 5.08 | 4.82 | 5.02 | 4.51 | 4.17 | 4.43 | 4.53 |
| Net interest income | 4.28 | 4.14 | 4.14 | 4.25 | 4.13 | 4.16 | 4.12 | 4.19 |
| Treasury income | 0.28 | 0.32 | 0.29 | 0.30 | 0.30 | 0.26 | 0.23 | 0.22 |
| Other Inc. from operations | 1.57 | 1.46 | 1.38 | 1.35 | 1.23 | 1.33 | 1.32 | 1.33 |
| Total income | 6.14 | 5.92 | 5.80 | 5.90 | 5.66 | 5.74 | 5.67 | 5.74 |
| Employee expenses | 1.07 | 0.94 | 0.88 | 0.88 | 0.81 | 0.71 | 0.64 | 0.61 |
| Other operating expenses | 1.97 | 1.76 | 1.71 | 1.74 | 1.65 | 1.65 | 1.70 | 1.77 |
| Operating profit | 3.10 | 3.22 | 3.22 | 3.29 | 3.21 | 3.39 | 3.33 | 3.36 |
| Tax | 0.82 | 0.96 | 0.94 | 0.98 | 0.95 | 0.96 | 0.95 | 0.97 |
| Loan loss provisions | 0.45 | 0.36 | 0.38 | 0.42 | 0.45 | 0.61 | 0.56 | 0.53 |
| RoAA | 1.82 | 1.90 | 1.89 | 1.89 | 1.81 | 1.82 | 1.82 | 1.86 |
| RoAE | 20.34 | 21.28 | 19.37 | 18.26 | 17.95 | 17.91 | 18.44 | 19.12 |

Source: Company Data, PL Research

Exhibit 13: HDFCB 1 year forward P/ABV trend – Valuations now at demanding levels



Source: Company Data, PL Research

Income Statement (Rs m)

| Y/e March | 2017 | 2018 | 2019E | 2020E |
|-------------------------|----------------|----------------|----------------|----------------|
| Int. Earned from Adv. | 520,553 | 626,618 | 759,980 | 920,328 |
| Int. Earned from Inv. | 159,443 | 162,224 | 211,625 | 258,876 |
| Others | 13,064 | 13,572 | 21,594 | 15,469 |
| Total Interest Income | 693,060 | 802,414 | 993,198 | 1,194,674 |
| Interest expense | 361,667 | 430,390 | 514,356 | 620,976 |
| NII | 331,392 | 372,024 | 478,842 | 573,698 |
| Growth (%) | 20.1 | 12.3 | 28.7 | 19.8 |
| Treasury Income | 11,394 | 9,687 | 9,500 | 9,500 |
| NTNII | 111,571 | 142,955 | 170,618 | 203,039 |
| Non Interest Income | 122,965 | 152,642 | 180,118 | 212,539 |
| Total Income | 816,025 | 955,056 | 1,173,316 | 1,407,212 |
| Growth (%) | 15.0 | 17.0 | 22.9 | 19.9 |
| Operating Expense | 197,033 | 226,904 | 271,483 | 325,904 |
| Operating Profit | 257,324 | 297,762 | 387,477 | 460,333 |
| Growth (%) | 20.5 | 15.7 | 30.1 | 18.8 |
| NPA Provisions | 31,453 | 47,032 | 50,056 | 54,505 |
| Investment Provisions | (76) | — | — | — |
| Total Provisions | 35,933 | 59,275 | 65,360 | 72,195 |
| PBT | 221,391 | 238,487 | 322,117 | 388,138 |
| Tax Provisions | 75,894 | 92,107 | 110,810 | 133,523 |
| Effective Tax Rate (%) | 34.3 | 38.6 | 34.4 | 34.4 |
| PAT | 145,496 | 146,380 | 211,307 | 254,616 |
| Growth (%) | 18.3 | 0.6 | 44.4 | 20.5 |

Balance Sheet (Rs m)

| Y/e March | 2017 | 2018 | 2019E | 2020E |
|--------------------------|------------------|-------------------|-------------------|-------------------|
| Par Value | 2 | 2 | 2 | 2 |
| No. of equity shares | 2,563 | 2,595 | 2,595 | 2,595 |
| Equity | 5,125 | 5,190 | 5,190 | 5,190 |
| Networth | 894,624 | 1,062,950 | 1,229,044 | 1,433,649 |
| Adj. Networth | 876,184 | 1,036,940 | 1,199,996 | 1,400,453 |
| Deposits | 6,436,397 | 7,887,706 | 9,346,932 | 11,029,380 |
| Growth (%) | 17.8 | 22.5 | 18.5 | 18.0 |
| Low Cost deposits | 3,091,525 | 3,430,930 | 4,159,385 | 4,974,250 |
| % of total deposits | 48.0 | 43.5 | 44.5 | 45.1 |
| Total Liabilities | 8,638,402 | 10,639,343 | 12,598,431 | 14,792,522 |
| Net Advances | 5,545,682 | 6,583,331 | 8,031,664 | 9,838,788 |
| Growth (%) | 19.4 | 18.7 | 22.0 | 22.5 |
| Investments | 2,144,633 | 2,422,002 | 3,494,412 | 3,743,029 |
| Total Assets | 8,638,402 | 10,597,366 | 12,598,431 | 14,792,522 |

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

| Y/e March | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 |
|----------------------------|----------------|----------------|----------------|----------------|
| Interest Income | 186,687 | 196,703 | 205,813 | 213,211 |
| Interest Expense | 92,980 | 99,182 | 102,669 | 106,634 |
| Net Interest Income | 93,707 | 97,521 | 103,143 | 106,577 |
| Non Interest Income | 35,167 | 36,059 | 38,692 | 42,286 |
| CEB | 25,781 | 26,140 | 28,721 | 33,297 |
| Treasury | 3,314 | 3,559 | 2,594 | 220 |
| Net Total Income | 128,874 | 133,580 | 141,835 | 148,863 |
| Operating Expenses | 53,675 | 55,401 | 57,322 | 60,506 |
| Employee Expenses | 16,575 | 17,158 | 16,913 | 17,412 |
| Other Expenses | 37,100 | 38,243 | 40,410 | 43,094 |
| Operating Profit | 75,199 | 78,179 | 84,513 | 88,357 |
| Core Operating Profit | 71,885 | 74,620 | 81,919 | 88,137 |
| Provisions | 15,588 | 14,762 | 13,514 | 15,411 |
| Loan loss provisions | 13,432 | 10,788 | 11,487 | 11,325 |
| Investment Depreciation | — | — | — | — |
| Profit before tax | 59,612 | 63,417 | 70,999 | 72,946 |
| Tax | 20,673 | 21,907 | 24,573 | 24,953 |
| PAT before EO | 38,938 | 41,510 | 46,426 | 47,993 |
| Extraordinary item | — | — | — | — |
| PAT | 38,938 | 41,510 | 46,426 | 47,993 |

Key Ratios

| Y/e March | 2017 | 2018 | 2019E | 2020E |
|----------------------|-----------|-----------|-----------|-----------|
| CMP (Rs) | 1,966 | 1,966 | 1,966 | 1,966 |
| Equity Shrs. Os. (m) | 2,563 | 2,595 | 2,595 | 2,595 |
| Market Cap (Rs m) | 5,037,196 | 5,100,992 | 5,100,992 | 5,100,992 |
| M/Cap to AUM (%) | 58.3 | 48.1 | 40.5 | 34.5 |
| EPS (Rs) | 57.2 | 68.0 | 81.4 | 98.1 |
| Book Value (Rs) | 349 | 410 | 474 | 552 |
| Adj. BV (100%) (Rs) | 329 | 386 | 442 | 518 |
| P/E (x) | 34.4 | 28.9 | 24.1 | 20.0 |
| P/BV (x) | 5.6 | 4.8 | 4.2 | 3.6 |
| P/ABV (x) | 6.0 | 5.1 | 4.5 | 3.8 |
| DPS (Rs) | — | 10.9 | 13.0 | 16.0 |
| Dividend Yield (%) | — | 0.6 | 0.7 | 0.8 |

Profitability (%)

| Y/e March | 2017 | 2018 | 2019E | 2020E |
|-----------|------|------|-------|-------|
| NIM | 4.1 | 3.9 | 4.1 | 4.2 |
| RoAA | 1.8 | 1.5 | 1.8 | 1.9 |
| RoAE | 17.9 | 15.0 | 18.4 | 19.1 |

Efficiency

| Y/e March | 2017 | 2018 | 2019E | 2020E |
|----------------------------|------|------|-------|-------|
| Cost-Income Ratio (%) | 43.4 | 43.2 | 41.2 | 41.5 |
| C-D Ratio (%) | 86.2 | 83.5 | 85.9 | 89.2 |
| Business per Emp. (Rs m) | 140 | 153 | 167 | 183 |
| Profit per Emp. (Rs lacs) | 16.9 | 15.5 | 20.3 | 22.3 |
| Business per Branch (Rs m) | 785 | 862 | 942 | 1,028 |
| Profit per Branch (Rs m) | 10 | 9 | 11 | 13 |

Asset Quality

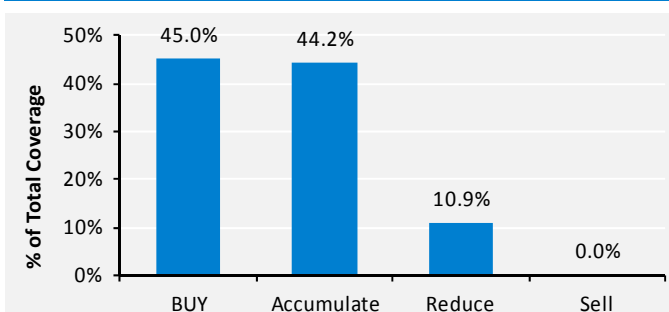
| Y/e March | 2017 | 2018 | 2019E | 2020E |
|----------------------------|--------|--------|--------|---------|
| Gross NPAs (Rs m) | 58,857 | 86,070 | 94,120 | 107,223 |
| Net NPAs (Rs m) | 18,440 | 26,010 | 29,049 | 33,196 |
| Gr. NPAs to Gross Adv. (%) | 1.1 | 1.3 | 1.2 | 1.1 |
| Net NPAs to Net Adv. (%) | 0.3 | 0.4 | 0.4 | 0.3 |
| NPA Coverage (%) | 68.7 | 69.8 | 69.1 | 69.0 |

Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage

PL's Recommendation Nomenclature

| | |
|--------------------------|--|
| BUY | : Over 15% Outperformance to Sensex over 12-months |
| Accumulate | : Outperformance to Sensex over 12-months |
| Reduce | : Underperformance to Sensex over 12-months |
| Sell | : Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : Over 10% absolute upside in 1-month |
| Trading Sell | : Over 10% absolute decline in 1-month |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

DISCLAIMER/DISCLOSURES
ANALYST CERTIFICATION

We/I, Mr. R. Sreesankar (B.Sc.), Mr. Pritesh Bumb (MBA, M.com), Ms. Shweta Daptardar (MBA-Finance), Ms. Vidhi Shah (CA), Research Analysts, 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. 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.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution of third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. R. Sreesankar (B.Sc.), Mr. Pritesh Bumb (MBA, M.com), Ms. Shweta Daptardar (MBA-Finance), Ms. Vidhi Shah (CA), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certify that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

DISCLAIMER/DISCLOSURES (FOR US CLIENTS)
ANALYST CERTIFICATION

The research analyst, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

Terms & conditions and other disclosures:

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.