

INDUSTRY	BANKS		
CMP (as on 20 Apr 2018)	Rs 506		
Target Price	Rs 573		
Nifty	10,564		
Sensex	34,465		
KEY STOCK DATA			
Bloomberg	RBK IN		
No. of Shares (mn)	420		
MCap (Rs bn) / (\$ mn)	211 / 3,222		
6m avg traded value (Rs mn)	640		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 601 / 443		
	3M	6M	12M
Absolute (%)	(3.0)	(2.6)	(12.1)
Relative (%)	(0.1)	(9.0)	(29.3)
SHAREHOLDING PATTERN (%)			
Promoters	-		
FIs and Local MFs	16.99		
FPIs	15.51		
Public and Others	67.50		
<i>Source : BSE</i>			

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Speed, sense and solidity

RBL Bank (RBK) is India's fastest growing private sector bank (~59% loan CAGR over FY10-17). It is adequately diversified across geographies and has a reasonable fix on asset quality. Beyond its corporate focus, RBK has selectively ventured into retail segments with high growth potential. With a well capitalised B/S, RBK is set to make the most of receding competition from corporate lenders (esp. PSUs)

Strategic clarity, tight execution and superlative growth off a low base make RBK attractive for long term investors. The rising share of high yielding retail loans will fatten NIMs (est. +51bps in FY17-20E). While expanding fee streams and the ability to tweak SA rates are key profit levers, RBK's high (and well directed) spend on people and technology will limit oplev for now. Our conservative cost and provision estimates still provide upside risk to earnings.

Initiate coverage with a BUY. Our TP of Rs 573 is based on a 3x Mar-20 ABV of Rs 191. RBK's underperformance (-24% relative to the Bank Nifty over the last year) makes for a good entry point.

Investment arguments

- **Strong growth visible:** On a relatively smaller base, RBK's management is confident of growing the loan book at 30-35% CAGR. With increasing retail/SME tilt, a calibrated risk appetite on corporate loans, deep relationships and an expanding client base, this looks feasible to us. We have factored 33% loan CAGR over FY18-20E.

- **Strategic clarity, tight execution:** RBK's management has consciously shied away from tricky (even if lucrative) segments like CVs and 2Ws. It is sticking to a narrow (and carefully chosen) range of products, even as it explores new credit segments via pilot initiatives. Meanwhile, cross-selling (credit cards and PL) within the current business mix provides opportunities.
- **Impeccable asset quality:** The aversion for project finance, green field risks and a consequent focus on shorter tenure loans has helped RBK keep asset quality under control (GNPA ~1.6%) in a relatively stressed credit environment. Impaired assets at 1.15% (3QFY18) compare well with peers (YES at ~3.24%, and FB at ~3.04%). We have factored in 1.45% slippages and LLP of 67bps over FY18-20E.
- **Healthy fee streams:** Despite the caution on growing riskier credit segments, a third of RBK's income is attributable to non-interest income. The bank offers 3-5 fee products to existing clients (with a focus on forex). Achieving scale in distribution income (>7x in 10 qtrs) has boosted fee income.

FINANCIAL SUMMARY

YE Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
NII	8,192	12,213	17,382	22,523	28,450
POPP	5,424	9,204	13,425	16,631	20,797
PAT	2,925	4,176	6,425	8,440	10,829
EPS (Rs)	9.0	11.1	15.5	20.3	26.1
EPS growth (%)	41.2	42.8	53.9	31.4	28.3
RoAE (%)	11.2	11.4	11.7	12.1	13.9
RoAA (%)	0.88	0.95	1.19	1.25	1.27
Adj BVPS (Rs)	88.2	110.4	155.7	171.2	191.0
P/ABV (x)	5.74	4.58	3.25	2.95	2.65
P/E (x)	56.2	45.5	32.7	24.9	19.4

Source: Bank, HDFC sec Inst Research

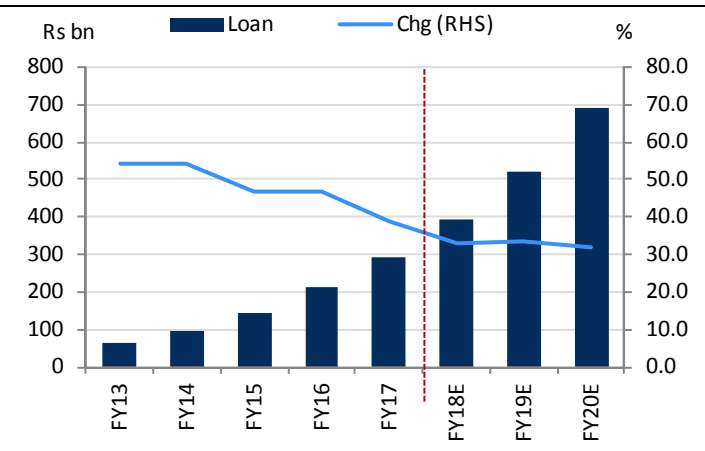
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Superlative growth story

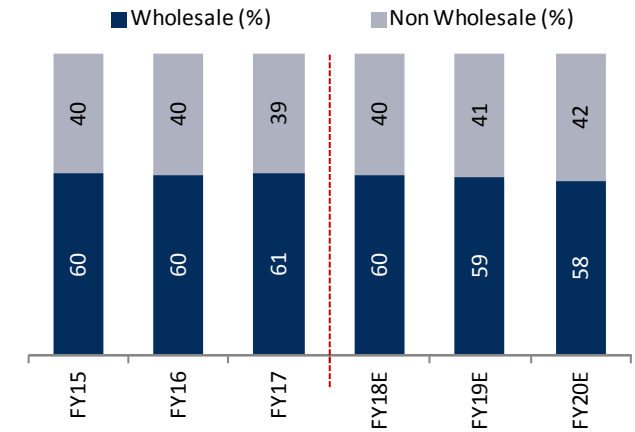
- Over the last 5 years, each of RBK's business verticals has grown in excess of 25%. Within segments, corporate loans (the focus area for the bank) have grown at ~45% over FY13-17. .
- The management is focused on growing the retail book at a faster pace, which will further diversify the book and reduce of overall risk.
- The bank has also diversified into retail products like home loans, LAP, personal loans and credit cards. Higher yields and solid underwriting have helped maintain NIMs and control asset quality
- In our view, RBK's aversion towards taking project finance exposures and avoiding green field risks augurs well for credit quality.
- We believe RBK is poised to grow much faster than the industry given the weak position of PSBs and sufficient growth capital given the fund raise in 1QFY18 (CRAR at 15.9%). We have modelled a loan CAGR of 33% over FY18-20E.

Growth Will Persist



Source : Bank, HDFC sec Inst Research

Mix Shifting Towards Retail



Source : Bank, HDFC sec Inst Research

Growth Ahead Of Peers

		FY13	FY14	FY15	FY16	FY17
HDFCB	Advances	1,954	2,397	3,030	3,655	4,646
	Growth (%)	22.2	22.7	26.4	20.6	27.1
ICICIBC	Advances	2,537	2,902	3,387	3,875	4,353
	Growth (%)	17.3	14.4	16.7	14.4	12.3
AXISB	Advances	1,698	1,970	2,301	2,811	3,388
	Growth (%)	19.2	16.0	16.8	22.2	20.5
IIB	Advances	351	443	551	688	884
	Growth (%)	34.0	26.4	24.3	24.8	28.5
YES	Advances	380	470	556	755	982
	Growth (%)	10.5	23.7	18.4	35.8	30.0
RBK	Advances	64	98	144	212	294
	Growth (%)	116.9	54.3	54.2	46.9	46.9
FB	Advances	378	441	434	513	581
	Growth (%)	18.2	16.8	-1.5	18.1	13.3
DCBB	Advances	53	66	81	105	129
	Growth (%)	23.4	24.6	23.6	28.6	23.5

Source: Bank, HDFC sec Inst Research. Figures in Rs bn

C&IB forms ~42.3% of total advances

RBK's small base will enable to grow at a rapid pace vs peers in the near future

CB forms ~18.2% of total advances

Corporate loans: A core strength

- RBK's corporate loans are broadly divided into 2 segments – Corporate and Institutional Banking (C&IB) and Commercial Banking (CB).
- RBK has traditionally been a corporate lender in order to gain scale and intentionally shied away from retail loans. It has significantly outpaced peers (~39% CAGR over FY13-17 vs. ~11% for FB and ~28% for YES) albeit on a smaller base.

RBK's Corporate Loan Book vs. Peers

Rs bn	FY13	FY14	FY15	FY16	FY17	CAGR (%)
HDFCB	1,033	1,533	1,927	2,405	2,709	26.2
ICICIBC	943	1,020	1,116	1,197	1,267	7.7
AXISB	982	1,022	1,082	1,554	1,559	12.2
IIB	219	303	404	519	676	32.5
YES	304	352	489	639	812	27.8
RBK #	48	63	87	127	179	39.2
FB	180	132	166	197	272	10.9
DCBB	16	21	24	19	25	12.8

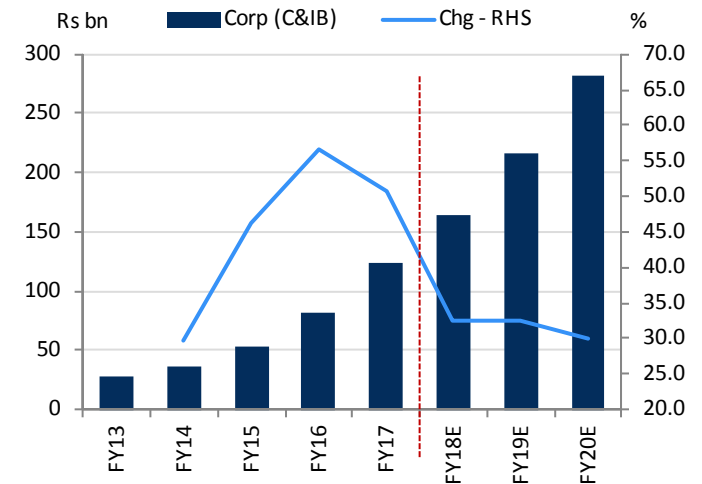
Source: Bank, HDFC sec Inst Research; 3 includes C&IB and CB

Corporate & Institutional Banking

- The bank has a small customer set (~800) but is adding quickly to this base (10-15/month).
- Lower TAT enables the bank to compensate for the slight premiums it charge (owing to higher COF vs competitors). Swift processing also leads to strong traction in PSU companies as time is paramount in most cases. The feeble position of PSBs provides RBK ample room to grow swiftly for the foreseeable future.
- No consortium lending and relatively lower avg ticket size (~Rs 600mn) keeps the portfolio diverse and safeguards the bank from concentration risk.

- Though the recent inception of a structured finance segment is an interesting development, management intends to tread carefully given the lack of expertise and headroom for competitiveness.

Robust Corporate Growth



Source : Bank, HDFC sec Inst Research

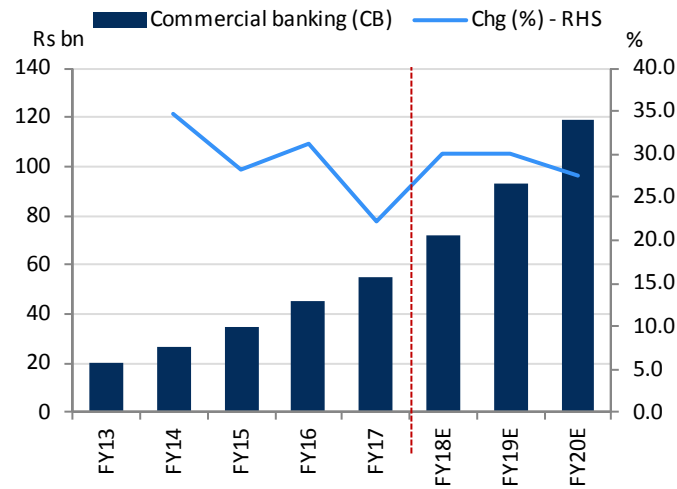
Commercial Banking

- In this segment, the customers are generally smaller than C&IB in terms of turnover and average ticket sizes. The bank is focussed on the services sector for client aquisition and plans to stay away from cyclical commodity businesses.
- The bank has about 1,200 customers. Here, the bank's strategy is to be amongst the top 2-3 bankers for the customer and typically have a high wallet share. RBK adds value to its clients by offering the complete gamut of fee products (primarily forex and trade related). Cross selling of fee-based products is a primary objective.

The mgt believes that recent optimisation of the cash management business will provide a boost to the banks' fee stream

RBK's average tenure of advances is significantly lower than peers

Commercial Banking : Also Growing Steadily



Source : Bank, HDFC sec Inst Research

Corporate Loans : Peer Comparison

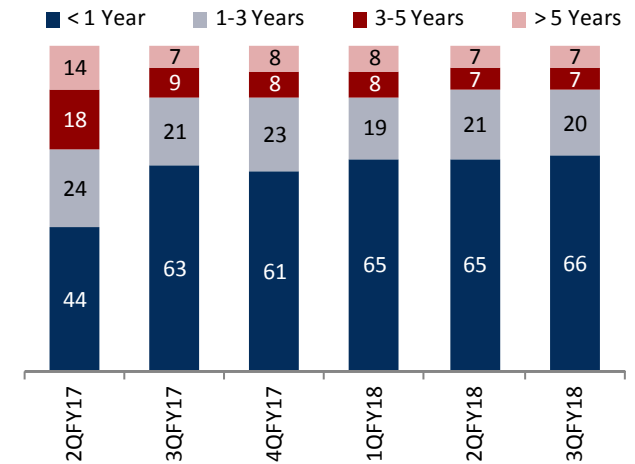
		FY13	FY14	FY15	FY16	FY17
HDFCB	Growth (%)	17.0	48.4	25.6	24.8	12.7
	% of total Loans	43.1	50.6	52.7	51.8	48.8
ICICIBC	Growth (%)	30.0	8.1	9.5	7.2	5.9
	% of total Loans	32.5	30.1	28.8	27.4	27.3
AXISB	Growth (%)	7.9	4.1	5.9	43.6	0.3
	% of total Loans	47.1	42.7	38.5	45.9	41.8
IIB	Growth (%)	23.0	38.3	33.2	28.5	30.2
	% of total Loans	49.5	55.0	58.7	58.7	59.7
YES	Growth (%)	33.0	15.8	38.8	30.8	27.0
	% of total Loans	64.7	63.3	64.7	65.1	61.4
RBK	Growth (%)	NA	29.8	46.1	56.5	50.7
	% of total Loans	43.3	36.4	36.2	38.6	41.9
FB	Growth (%)	12.3	-26.7	26.1	18.5	38.2
	% of total Loans	40.7	30.3	31.9	33.4	36.7
DCBB	Growth (%)	31.1	33.8	15.9	-20.2	30.6
	% of total Loans	23.8	25.7	23.2	15.0	16.0

Source : Bank, HDFC sec Inst Research

Tenure of Advances : Tilt towards the short Term

- RBK's stance on avoiding greenfield risk and shying away from project finance is visible as 65% of advances have a tenure of less than a year and ~86% are below 3 years.

Tenure Of Advances: Short Term Tilt Visible



Source : Bank, HDFC sec Inst Research

Maturity Of Advances Vs. Peers

	FY12	FY13	FY14	FY15	FY16	FY17
HDFCB	1.76	1.74	1.74	1.77	1.75	1.82
ICICIBC	2.29	2.33	2.48	2.42	2.53	2.67
AXISB	3.12	3.18	3.39	3.27	3.33	3.31
IIB	1.37	1.40	1.74	1.92	1.58	1.86
YES	1.90	2.09	2.35	1.95	2.06	2.20
RBK	2.01	2.20	1.66	1.65	1.55	1.57
FB	1.90	1.89	2.04	1.71	1.99	2.06
DCBB	2.39	2.53	2.61	2.79	2.78	2.77

Source: Bank, HDFC sec Inst Research

Retail: Growth Driver

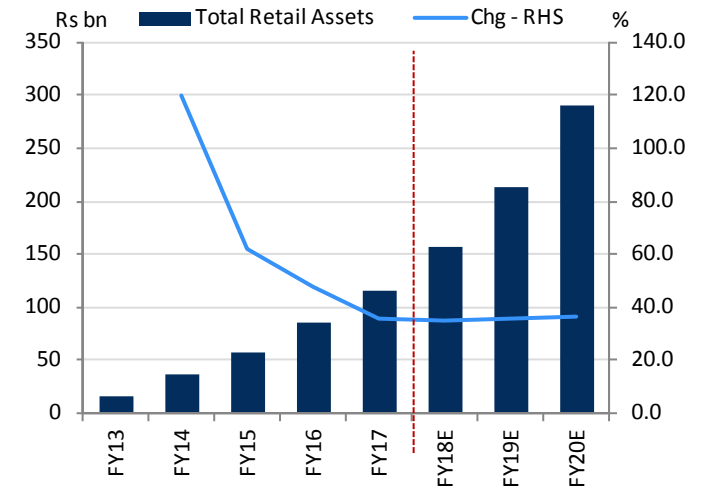
- After building out a sizeable and profitable corporate franchise, RBK started offering some retail products from FY12. Since then, RBK has grown retail loans at a CAGR of 64% (FY13-17) to form ~39.4% of loans.
- RBK’s retail assets are bifurcated into three sub-verticals: Branch & Business Banking (BBB), Development Banking & Financial Inclusion (DB&FI) and Agri. Each of these has grown at more than 50% CAGR over FY13-17.
- Through the BBB vertical, RBK offers LAP, business loans, PL, Cards and other loans. Tthe DB&FI business is split into Micro Banking, Institutional Financial Inclusion (IFI) and MSME.
- Currently, cross-sell to liability customers is merely 10-12%. However, as branches mature management expects internal sourcing to increase
- Despite having only 246 branches, RBK has managed to grow retail assets through numerous partnerships and customer service points. Overall retail assets saw a robust CAGR of ~63.5% over FY13-17.
- Management is focussed on growing the current product offerings rather than adding new segments. Though asset financing (2W and CV) seems appealing, the additional investments and long gestation period make it unviable at this juncture.
- We have factored retail loan CAGR of 36% over FY18-20E largely driven by robust growth in BBB segment. Consequently, the share of retail loans will increase 200bps to 42% over FY18-20E.

Retail Assets: Segment-wise Break Up

Rs bn	FY13	FY14	FY15	FY16	FY17
BBB (Rs bn)	6.9	16.3	23.6	36.4	53.7
Chg (%)	NA	136.6	44.8	54.2	47.5
% of Total	10.8	16.6	16.3	17.2	18.2
DB&FI (Rs bn)	7.2	13.2	20.8	31.3	41.2
Chg (%)	NA	82.3	58.0	50.7	31.6
% of Total	11.3	13.4	14.4	14.8	14.0
Agri (Rs bn)	2.1	6.2	13.4	17.6	21.1
Chg (%)	NA	194.6	113.7	31.5	20.1
% of Total	3.3	6.4	9.2	8.3	7.2

Source: Bank, HDFC sec Inst Research

Retail Loans Will Drive Growth



Source : Bank, HDFC sec Inst Research

RBK does not offer any cards to mass customers

About 50-55% of credit card sourcing is done through DSA's

70% of credit card customers are salaried

Branch & Business Banking

- BBB is one of RBK's fastest growing segments clocking a CAGR of ~67% over FY13-17. This segment accounts for ~21.2% of total loans as on 3QFY18.

(1) Loan Against Property

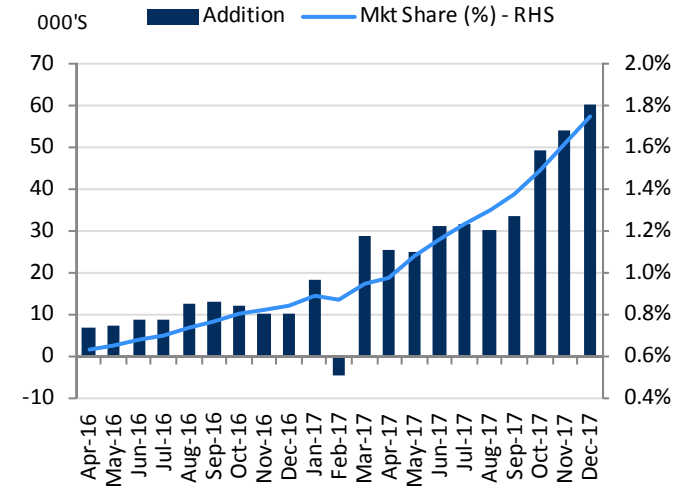
- A chunk of the BBB book is towards LAP (~50%). RBK is currently focussed on offering LAP loans only in the top 30-40 cities. However, the bank will add this product in another 20-30 cities by the end of FY19.
- Though ~80% of LAP loans are sourced through external channels, ~98% of collateral is either self owned property or primary place of business, which counter balances the risk.
- Currently, LAP is offered only through 140 branches but as overall vintage improves, RBK will source loans through all branches and reduce DSA sourcing.
- The bank aims to operate in the market between large private banks who offer lower rates and NBFCs who cater to lower customer segments with lower ticket sizes and higher interest rates.
- Future growth will largely be due to a differentiated and customised product offering. Additionally, giving a top-up to financially disciplined customers with an established track record at higher rates (differential of 7-8%) will boost profitability

(2) Credit Cards

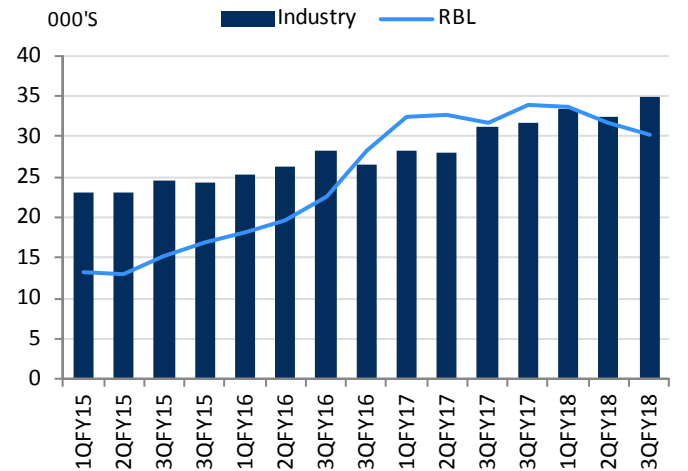
- RBK's credit card slice is an upcoming and exciting segment. The bank has a fragmented offering here with specialized cards for each type of spend with customized offers for travel, entertainment and leisure.
- Customer acquisition has accelerated over the past few quarters given the extensive marketing activities. From a bit over 7k adds in Apr-16, acquisition has jumped to 50-60k/month.

- The partnership with BAF (Bajaj Finance) is also beneficial as the bank can cross-sell their cards to the huge customer base. However, RBK will focus on the top 25% of customers (~10mn) of BAF given their proven track record and better credit behavior.

Card Additions Per Month Steadily Increasing



Spends Per Card vs. Industry



Source : RBI, HDFC sec Inst Research

Credit Card Spends Market Share (%)

Banks	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18
AMEX	12.5	12.6	12.0	12.0	12.6	12.4	11.4	11.8	12.8	12.7	11.4	11.5	10.2	9.6	9.7
AXSB	6.9	6.8	6.8	7.7	5.0	7.4	8.0	9.1	8.8	8.6	8.4	9.0	9.0	9.1	9.5
CITI	16.5	16.4	16.1	15.2	15.4	14.5	14.6	13.7	13.5	12.9	13.3	11.7	11.7	10.6	10.3
HDFCB	29.5	29.6	30.6	30.3	31.0	31.1	30.7	29.5	29.5	29.6	29.6	29.3	28.9	29.1	28.1
HSBC	2.0	2.0	1.9	1.8	1.8	1.6	1.6	1.5	1.4	1.3	1.3	1.2	1.1	1.1	1.1
ICICIBC	11.2	11.2	11.4	11.1	11.1	10.6	10.8	11.1	10.7	11.0	10.9	11.1	11.2	11.0	11.2
IIB	1.4	1.4	1.5	1.7	2.2	2.2	2.4	2.9	2.9	3.0	2.9	3.4	3.3	3.3	3.2
KMB	1.7	1.7	1.7	1.7	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.2	2.3	2.3	2.3
RBK	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.6	0.8	0.9	0.9	1.0	1.2	1.3	1.5
STANC	4.8	4.7	4.8	4.2	4.1	3.9	3.8	3.4	3.2	3.1	3.2	3.0	2.7	2.5	2.5
SBIN	10.9	11.1	10.6	11.7	12.3	11.7	11.9	12.1	12.0	12.5	13.7	14.0	15.8	17.3	18.0

Cards Market Share (%)

Banks	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18
AMEX	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.3	3.3
AXSB	7.2	7.5	7.7	7.8	8.2	8.3	8.8	9.5	9.8	10.2	10.5	10.8	11.2	11.2	11.5
CITI	12.6	12.3	12.1	11.7	11.4	10.9	10.5	10.5	9.8	9.4	9.0	8.7	8.5	8.2	7.8
HDFCB	26.8	27.1	27.6	28.2	28.3	28.8	29.2	27.6	29.7	30.1	30.2	30.5	28.6	28.7	28.9
HSBC	2.6	2.5	2.5	2.4	2.4	2.3	2.2	2.1	1.9	1.9	1.7	1.6	1.5	1.6	1.6
ICICIBC	16.6	16.8	16.7	16.1	15.8	15.5	15.1	15.4	14.9	14.9	14.9	14.5	14.3	13.8	13.5
IIB	1.4	1.5	1.5	1.6	1.6	1.6	1.7	1.8	1.8	1.8	1.8	1.9	2.0	2.0	2.1
KMB	2.3	2.2	2.3	2.4	2.5	2.7	2.8	3.0	3.0	3.1	3.3	3.4	3.5	3.6	3.7
RBK	0.7	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.8	0.9	1.2	1.4
STANC	6.1	5.9	5.7	5.4	5.2	4.9	4.6	4.5	4.1	4.0	3.9	3.7	3.7	3.6	3.6
SBIN	14.9	15.0	14.5	14.8	15.0	15.1	15.1	15.2	14.8	14.8	14.9	15.0	15.3	15.7	15.8

Source: RBI, Bank, HDFC sec Inst Research

Micro Banking customers have access to all the basic asset and liability products through the bank's wide BC network (esp. Swadhaar)

RBK operates with a total of 6 BC's

Currently, all loans under Micro banking are JLG loans

Swadhaar sources ~40% of Micro banking and 100% of MSME loans

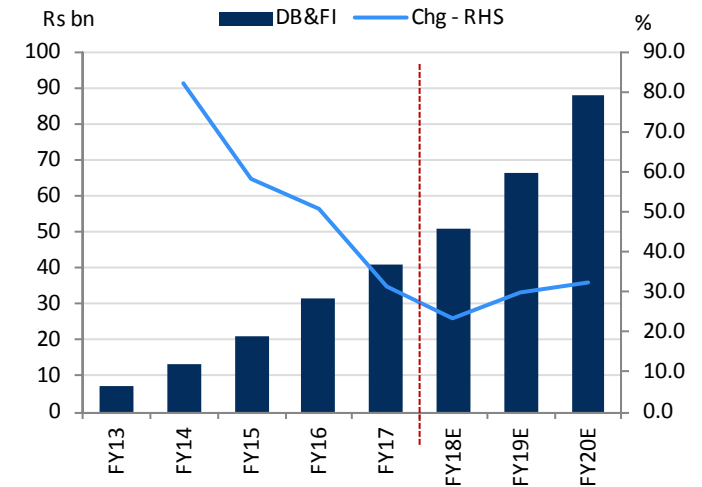
Going forward, no state will contribute > 15% to loans thereby reducing risks related to specific regions

The ngt has guided that asset quality in the MFI business will peak out in 4Q

Financial Inclusion

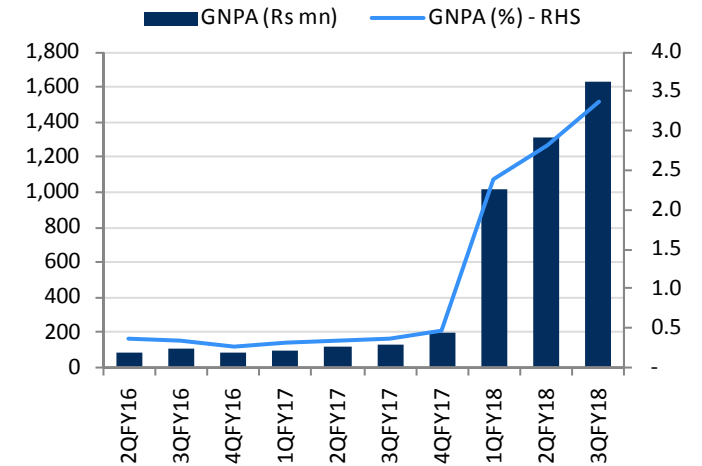
- The Financial Inclusion (FI) segment is broadly divided into three businesses i.e. Micro Banking, Institutional Financial Inclusion (IFI) and MSME. As at 3QFY18, FI forms ~13% of loans.
- Micro Banking (7.8% of loans as on 3Q) is a focus area for the bank given the granularity of loans and significantly higher yields.
- RBK operates through a network of business correspondents (BC). The bank works with 1-2 BC organisations in each state that are well versed with the geography. Hence, RBK is able to work with experts in the area and have a single point of contact.
- Swadhaar (RBK's subsidiary) is also an important partner for this vertical. Management aims to source a majority of micro banking loans through the sub as it enables better control on quality, while also being cost effective.
- Growth in the micro banking business will largely be driven by expansion into newer geographies. The bank is already present in 21 states (3-4 states added over the last couple of quarters) but sees ample room for growth .
- However, the IFI business has been de-growing (3.7% of loans vs 5.5% as on FY17) and will continue to do so as many of its customers in this segment have converted to banks (Equitas, Ujjivan, etc).
- Though asset quality has worsened (from 0.36% to 3.38%) over the past few quarters, it was largely due to the impact of demonetisation. Collection efficiency on incremental loans has significantly improved (99.6%) since then and no major jolts are expected hereon.

FI Growth To Remain Steady



Source : Bank, HDFC sec Inst Research

Deterioration Visible In The Last 3 Quarters



Source : Bank, HDFC sec Inst Research

Impeccable Asset Quality

No blow up in stress

- Over FY12-14, most banks witnessed strong growth largely driven by the corporate credit boom. However, as the economic downturn began, a significant chunk of these loans turned bad. This was visible as slippages shot up and asset quality deteriorated over FY15-17.
- Slippages spiked and GNPA accretion was elevated. Corporate lenders such as ICICIBC, AXSB and various PSBs still face asset quality woes, exacerbated by tighter RBI guidelines on stress recognition.

Slippages Have Jumped For Corporate-heavy Banks

%	FY12	FY13	FY14	FY15	FY16	FY17
HDFCB	0.98	1.59	1.89	1.58	1.52	1.54
ICICIBC	1.27	1.32	1.44	2.19	4.06	7.46
AXISB	1.18	1.10	1.19	1.12	2.34	6.12
IIB	0.94	1.33	1.26	1.43	1.08	1.42
YES	0.18	0.57	0.78	0.59	1.05	2.28
RBK	0.60	0.78	0.79	0.39	1.12	2.11
FB	1.99	1.97	1.56	1.72	3.47	1.64
DCBB	1.43	1.27	1.32	1.87	1.93	1.82

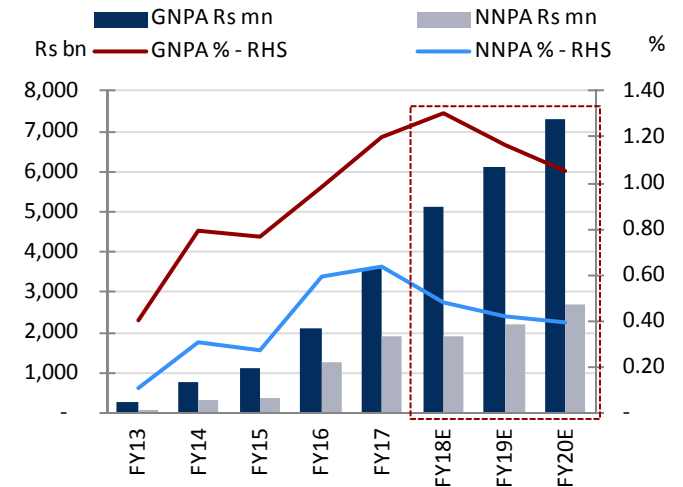
Source : Bank, HDFC sec Inst Research

- However, RBK has fared relatively better in this situation given the bank's aversion to greenfield risk, project finance and its focus on shorter tenure loans. Being a late entrant in the system also worked in its advantage. The bank has also been focussed on lending to better rated borrowers which is visible as more than 70% of rated borrowers are above investment grade. The bank is inclined to improving this rating profile further.

Industry NPAs for Corporate lenders

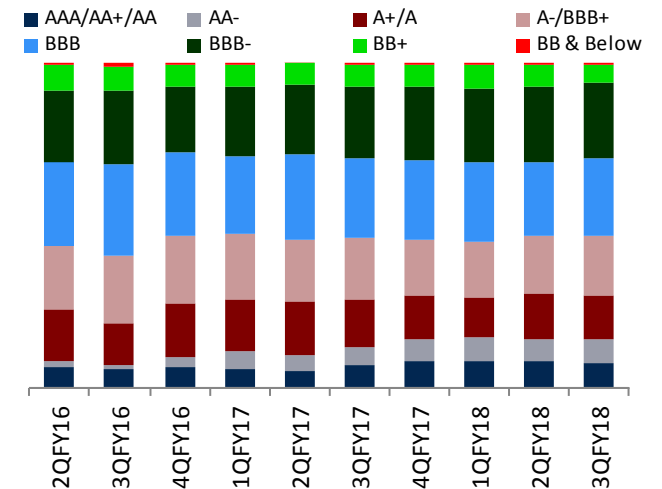
%	FY15	FY16	FY17
HDFCB	1.0	1.0	1.1
ICICIBC	4.7	9.7	18.1
AXSB	1.7	2.2	9.6
IIB	0.7	0.9	0.8
YES	0.5	0.3	2.1
RBK	0.4	1.0	1.6
FB	3.4	6.5	5.0
DCBB	2.9	3.2	2.6

NPAs In Line With Growth



Source : Bank, HDFC sec Inst Research

Well Rated Portfolio



Source : Bank, HDFC sec Inst Research

Stress by lending segment: 10 quarter history

Rs mn	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18
Corp & Institutional Banking (C&IB)	501	171	171	266	378	378	1,038	1,030	1,028	1,422
% of loans	0.77	0.21	0.21	0.3	0.36	0.33	0.84	0.78	0.74	0.91
Commercial Banking (CB)	785	1,344	1,384	1,589	1,592	1,604	1,389	1,438	1,236	1,057
% of loans	1.87	2.87	2.96	3.42	3.44	3.29	2.53	2.60	2.00	1.56
Branch & Business Banking (BBB)	198	312	378	472	550	617	763	865	1,037	1,108
% of loans	0.74	0.9	1.09	1.26	1.26	1.29	1.42	1.41	1.49	1.41
LAP (Rs mn)	6	6	42	61	85	128	199	153	200	253
BIL (Rs mn)	26	39	34	56	78	108	159	197	246	257
PIL (Rs mn)	4	6	8	13	19	27	43	57	77	85
Cards (Rs mn)	32	29	46	69	81	84	98	144	158	193
Others (Rs mn)	130	232	248	273	285	270	264	315	356	320
Agri	47	58	66	102	107	117	181	234	264	576
% of loans	0.31	0.33	0.38	0.56	0.64	0.67	0.86	1.03	1.28	2.89
Financial Inclusion (FI)	85	106	82	98	119	131	197	1,012	1,307	1,635
% of loans	0.36	0.34	0.26	0.31	0.33	0.36	0.48	2.39	2.81	3.38
Total	1,616	1,991	2,081	2,527	2,746	2,847	3,568	4,579	4,872	5,798
% of loans	0.48	0.69	0.59	0.66	0.55	0.52	0.64	0.81	0.78	0.97

Source: Bank, HDFC sec Inst Research

- C&IB:** Stress has been under control given the bank's focus on lending to better rated corporates and shorter tenure loans. The recent accretion is due to recognition of one chunky account of ~Rs 530mn (sugar sector as per RBI directions). However, post the RBI circular on 12th Feb, this account may not get upgraded till Dec-18.
- CB:** This segment has traditionally seen higher than average NPAs as the business was tilted towards cyclical commodity players. Disruption owing to GST has also caused some issues. However, GNPA's have been reducing in recent quarters as the mgt has

revamped processes. We do not expect any major shocks hereon.

- Financial Inclusion:** This portfolio was badly hit after the demonetisation shock as a chunk of MFI borrowers faced cash crunch. The mgt has been guiding for GNPA's of ~5-5.5% by FY18, post which a gradual improvement is expected. However, collection efficiency has regained normalcy over the past 2-3 qtrs. The institutional part of FI business was relatively unaffected as most MFI's were well capitalized.

RBK's book is well diversified across sectors, eliminating specific sectorial risk

Non fund based exposures form ~26% of total exposures

RBK has relatively lower exposure to stressed sectors vs. peers

	ICICIB	YES	AXSB	RBK
Metals	4.1	4.2	4.1	1.1
Infra	7.8	14.0	9.1	9.6
Textile	0.5	1.3	0.4	1.5
Gems & Jewels	0.5	1.8	0.3	1.0

Source : Bank, HDFC sec Inst Research

RBK's total exposure to energy sector is ~Rs 37.7bn which are largely towards renewable energy projects

These projects are 100% operational

- Agri:** Recent announcements regarding loan waiver has led to a spike in GNPA's. Maharashtra and Karnataka are the most affected regions for the bank. However the mgt believes a part of this portfolio will see an improvement driven by greater clarity on waiver eligibility.

- BBB:** Asset quality trends in his portfolio have largely been in line with asset growth. However, the mgt expect slightly higher addition in the LAP segment as the portfolio gets seasoned.

Exposure to Major Sectors (Fund + Non Fund Based)

Rs bn	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	% of Total exposure
Mining and Quarrying	3.7	5.0	5.4	5.7	4.9	5.6	5.5	1.0
Food Processing	23.0	23.1	23.6	22.9	22.2	21.0	23.9	4.5
Textiles	5.5	5.8	6.3	6.5	6.5	7.9	8.1	1.5
Petroleum (non-infra), Coal Products non-mining) and Nuclear Fuels	5.3	5.8	5.6	5.4	6.7	7.4	6.2	1.2
Chemicals and Chemical Products	28.4	29.1	32.7	31.3	32.0	37.8	38.0	7.1
Rubber, Plastic and their products	3.2	3.4	5.1	5.0	5.4	5.5	5.5	1.0
Basic Metal and Metal Products	7.2	4.3	4.7	10.4	9.5	9.1	5.6	1.1
All Engineering	11.6	14.4	16.1	14.9	15.9	17.9	20.2	3.8
Vehicles, Vehicle Parts and Transport Equipments	3.0	3.0	3.1	4.0	4.7	5.2	5.8	1.1
Gems and Jewellery	5.2	5.6	4.2	5.3	5.8	6.0	5.5	1.0
Construction	18.1	21.8	30.1	25.3	26.5	25.1	36.7	6.9
Infrastructure	28.4	36.0	39.5	42.8	43.3	47.0	51.1	9.6
NBFC	11.8	14.3	16.7	17.0	18.8	16.7	38.8	7.3
Micro-Finance Institutions (MFI)	15.6	17.5	17.5	11.8	10.6	11.1	65.4	12.3
Housing Finance Companies (HFC)	4.9	5.5	5.2	3.8	4.4	3.7	19.5	3.7
Core Investment Companies (CIC)	1.5	4.8	1.5	1.5	1.3	1.3	5.4	1.0
Traders	18.1	23.5	19.8	22.3	22.8	25.5	9.6	1.8
Other Industries	23.6	101.8	35.7	49.0	51.4	36.6	28.6	5.4
Residuary Other Advances	80.8	94.6	97.3	112.1	119.5	129.7	142.4	26.7
TOTAL	335.9	374.8	402.7	438.0	454.5	487.0	533.0	

Source : Bank, HDFC sec Inst Research

There is a considerable reduction in the concentration risk for RBK over FY12-17. However, it still remains higher than peers

While industry NPAs shot up for large corp lenders between FY14-17, RBK remained relatively safeguarded

Peer Comparison

	FY12	FY13	FY14	FY15	FY16	FY17
Top 20 Loans (%)						
RBK	33.1	26.5	15.8	13.7	14.0	14.8
HDFCB	14.9	12.8	13.4	13.1	11.9	9.4
ICICIBC	15.4	15.4	15.7	16.6	14.6	13.2
AXSB	11.9	10.6	11.0	11.0	10.2	11.1
IIB	22.6	22.6	16.3	17.5	16.2	15.6
YES	13.0	13.4	16.2	14.2	13.8	12.4
FB	18.2	19.8	11.9	10.5	16.3	10.2
DCBB	14.5	11.9	10.8	10.0	8.1	7.1
Top 20 Exposures (%)						
RBK	27.8	22.4	14.3	12.8	13.4	14.3
HDFCB	16.5	14.7	15.2	15.0	12.3	9.5
ICICIBC	14.9	14.9	15.2	15.9	14.3	12.6
AXSB	12.3	11.8	12.5	13.1	12.4	13.1
IIB	22.2	21.4	15.4	17.1	15.7	15.6
YES	13.8	15.6	16.1	14.4	13.2	12.6
FB	13.5	13.7	11.2	10.1	16.9	11.1
DCBB	14.0	11.8	10.5	9.7	8.0	8.4
Top 4 NPAs (Rs bn)						
RBK	0.20	0.17	0.65	0.78	0.85	1.21
HDFCB	3.13	2.88	3.55	3.49	4.97	5.89
ICICIBC	5.66	12.51	17.49	62.02	108.42	149.25
AXSB	5.82	9.38	6.51	9.31	11.21	49.84
IIB	0.45	0.97	1.27	1.00	1.41	1.71
YES	0.59	0.56	0.72	1.15	5.68	15.55
FB	2.08	4.01	1.67	2.48	2.67	2.50
DCBB	0.19	0.24	0.29	0.78	0.61	0.68
Industry GNPA (%)						
RBK	6.27	0.26	0.48	0.39	1.04	1.59
HDFCB	1.30	1.04	0.99	1.00	0.96	1.12
ICICIBC	2.02	2.28	3.04	4.66	9.68	18.13
AXSB	0.75	1.09	1.25	1.65	2.22	9.61
IIB	0.45	1.11	1.74	0.72	0.91	0.84
YES	0.29	0.37	0.33	0.46	0.28	2.14
FB	6.97	6.59	3.37	3.41	6.52	5.03
DCBB	1.79	0.91	2.18	2.90	3.23	2.63

Source: Bank, HDFC sec Inst Research

RBK has managed to keep Agri stress under control despite various macro headwinds

Peer Comparison

	FY12	FY13	FY14	FY15	FY16	FY17
Agri GNPA (%)						
RBK	0.34	0.21	0.19	0.34	0.31	0.57
HDFCB	0.92	0.90	1.18	1.31	1.41	1.93
ICICIBC	4.78	3.60	3.62	2.97	3.15	3.11
AXSB	2.33	2.36	2.83	2.26	2.44	3.25
IIB	0.93	1.11	1.11	0.69	0.73	0.77
YES	0.16	0.01	0.03	0.12	1.69	3.64
FB	3.42	3.11	3.56	2.00	1.69	2.86
DCBB	0.00	2.10	2.21	1.02	1.40	2.42
Credit Costs (%)						
RBK	0.33	0.23	0.37	0.29	0.45	0.60
HDFCB	0.61	0.57	0.60	0.52	0.51	0.62
ICICIBC	0.42	0.57	0.80	0.97	1.83	3.34
AXSB	0.55	0.64	0.61	0.70	1.23	3.13
IIB	0.47	0.55	0.63	0.55	0.64	0.70
YES	0.03	0.34	0.26	0.20	0.57	0.58
FB	0.64	0.46	0.52	0.43	1.02	0.62
DCBB	0.51	0.29	0.47	0.45	0.54	0.60
Provision Coverage calc. (%)						
RBK	74.7	73.4	60.8	65.3	40.2	46.8
HDFCB	82.4	79.9	72.6	73.9	69.9	68.7
ICICIBC	80.4	76.8	68.6	58.6	50.6	40.2
AXSB	73.8	70.6	67.4	68.0	58.6	59.5
IIB	72.7	70.1	70.4	62.6	58.6	58.4
YES	79.2	92.6	85.1	72.0	62.0	46.9
FB	84.7	72.2	70.4	64.7	43.0	45.5
DCBB	87.5	77.1	46.5	43.2	50.6	51.1

Source: Bank, HDFC sec Inst Research

Peer SA Offerings

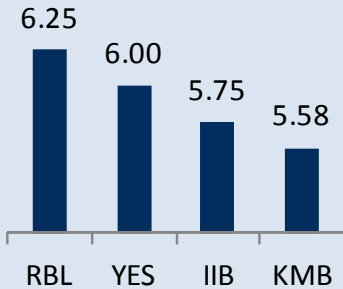
IIB	%
< Rs 1mn	4.00
Rs 1 to 10mn	5.00
Rs 10-100mn	5.50
> Rs 100mn	6.00

YES	%
< Rs 0.1mn	5.00
Rs 0.1-10mn	6.00
> Rs 10mn	6.25

KMB	%
< Rs 0.1mn	5.00
> Rs 0.1mn	6.00

Source: Bank, HDFC sec Inst Research

AVERAGE COST OF SA



NIMs will sustain

- RBK is one of the few banks (in addition to KMB, IIB and YES) that offers differential rates of interest on SA deposits. This has led to robust CASA accretion over the past 8 quarters (from ~18.2% to ~24%). The bank will continue to hold up rates as the mgt expects strong customer addition to continue.

Interest Rates On Savings Accounts

Slabs	Rate (%)
Up to Rs 0.1mn	5.50
Above Rs 0.1mn and up to Rs. 1mn	6.00
Above Rs.1mn and up to Rs. 50mn	6.50

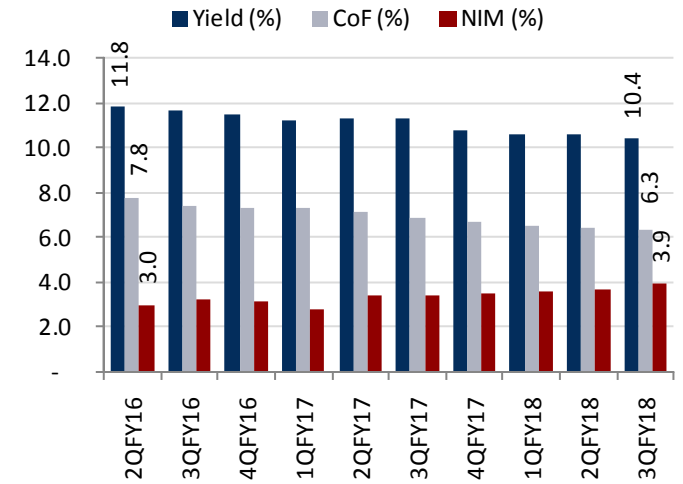
Source : Bank, HDFC sec Inst Research

- Despite the higher rates on SA deposits, RBK’s NIMs have been continuously trending upwards. This is largely owing to the rising share of high yielding retail loans, focus on risk-based pricing and lower interest reversals, as slippages remain under control
- The headroom to tweak SA rates (and still offer a premium on market rates) is a key advantage.
- We believe that NIMs will remain stable over FY18-20E as retail traction continues and COF remains moderate with rising CASA.

NIMs Vs Peers

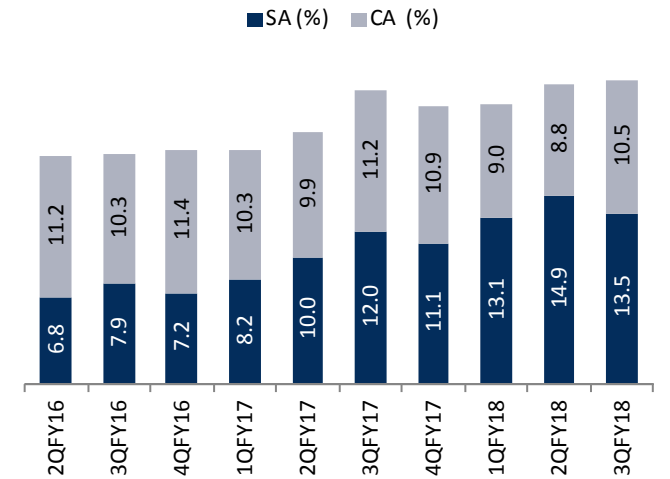
NIM	FY15	FY16	FY17	FY18E	FY19E	FY20E
ICICIBC	3.47	3.56	3.35	3.23	3.27	3.28
AXISB	3.70	3.80	3.64	3.39	3.43	3.39
IIB	3.86	3.99	4.20	4.19	4.20	4.22
YES	3.18	3.38	3.37	3.47	3.58	3.66
RBK	2.68	2.65	3.02	3.51	3.59	3.53
FB	3.35	3.23	3.28	3.27	3.26	3.22
DCBB	3.68	3.72	3.89	3.90	3.91	3.81

Visible Uptick In NIMs



Source : Bank, HDFC sec Inst Research

CASA Rising Slowly But Steadily



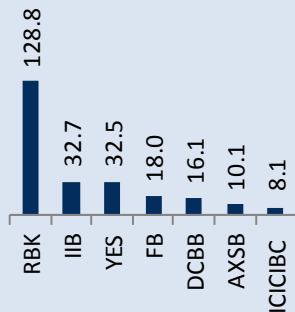
Source : Bank, HDFC sec Inst Research

The bank's clear focus is towards initiating lending relationships and eventually moving on to fee related products.

Low TAT and competitive rates are key drivers for forex business

The mgt is looking to ramp up its MF distribution franchise in a bid to improve fee income

CEB CAGR over FY12-17



Source: Bank, HDFC sec Inst Research

Fee income

- The management's inclination towards generating high fee income is clearly visible as RBK has a strong fee engine. Fees are ~1.7% of loans which is commendable given its scale and the relatively short branch vintage.
- RBK's willingness to forego unprofitable credit, and still offer fee-based products to clients enables the bank to maintain a superior fee profile.
- Over the past 8 quarters, fee streams for the bank have expanded which has led to higher granularity. Distribution has been a major lever as its share has jumped from ~11% in 3QFY16 to ~34% in 3QFY18.

Trend In Bancassurance Income

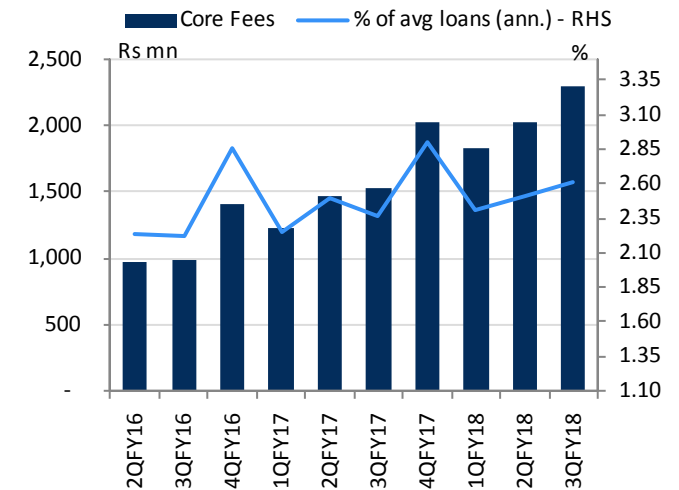
Rs mn	FY14	FY15	FY16	FY17
Life Insurance	64.9	67.2	86.7	108.4
General Insurance	12.4	16.9	21.1	21.0
Total	77.3	84.1	107.8	129.4

% of CEB	24.9%	3.2%	3.1%	1.7%
% of other income	3.0%	2.1%	2.2%	1.7%
% of PPOP	4.3%	2.3%	2.0%	1.4%
% of PAT	8.3%	4.1%	3.7%	3.1%

Source : Bank, HDFC sec Inst Research

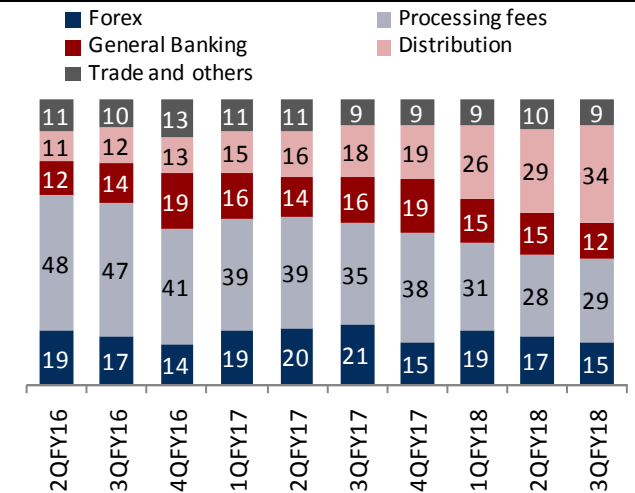
- The bank targets interest income to non-int income mix of 2:1 for the C&IB and CB segment, which indicates a further boost to fee income.
- We believe fee growth can exceed asset growth given the persistent efforts on growing all fee streams and adding newer ones. We have factored in a fee growth of 29% over FY18-20E

Fee Income Inching Up



Source : Bank, HDFC sec Inst Research

Fee Mix Well Diversified



Source : Bank, HDFC sec Inst Research

Fees as a % of advances

	FY13	FY14	FY15	FY16	FY17
HDFCB	2.16%	1.89%	1.80%	1.67%	1.59%
ICICIBC	1.88%	1.86%	1.80%	1.71%	1.73%
AXISB	2.55%	2.34%	2.18%	1.98%	1.88%
IIB	2.39%	2.35%	2.73%	2.84%	2.87%
YES	2.29%	2.27%	2.62%	2.50%	2.37%
RBK	0.27%	0.32%	1.80%	1.62%	1.67%
FB	0.74%	0.76%	0.80%	0.76%	0.67%
DCBB	1.36%	1.23%	1.14%	1.09%	1.05%

Source: Bank, HDFC sec Inst Research

Fees as a % of avg assets

	FY13	FY14	FY15	FY16	FY17
HDFCB	1.40%	1.29%	1.22%	1.19%	1.12%
ICICIBC	1.54%	1.71%	1.71%	1.69%	1.46%
AXISB	1.91%	1.96%	1.74%	1.69%	1.51%
IIB	1.98%	2.20%	2.44%	2.47%	2.42%
YES	1.28%	1.49%	1.55%	1.63%	1.81%
RBK	0.98%	1.40%	1.53%	1.30%	1.45%
FB	0.70%	0.74%	0.79%	0.78%	0.75%
DCBB	1.03%	0.96%	0.95%	1.01%	0.95%

Source: Bank, HDFC sec Inst Research

RoAA will inch up; fund raise imminent

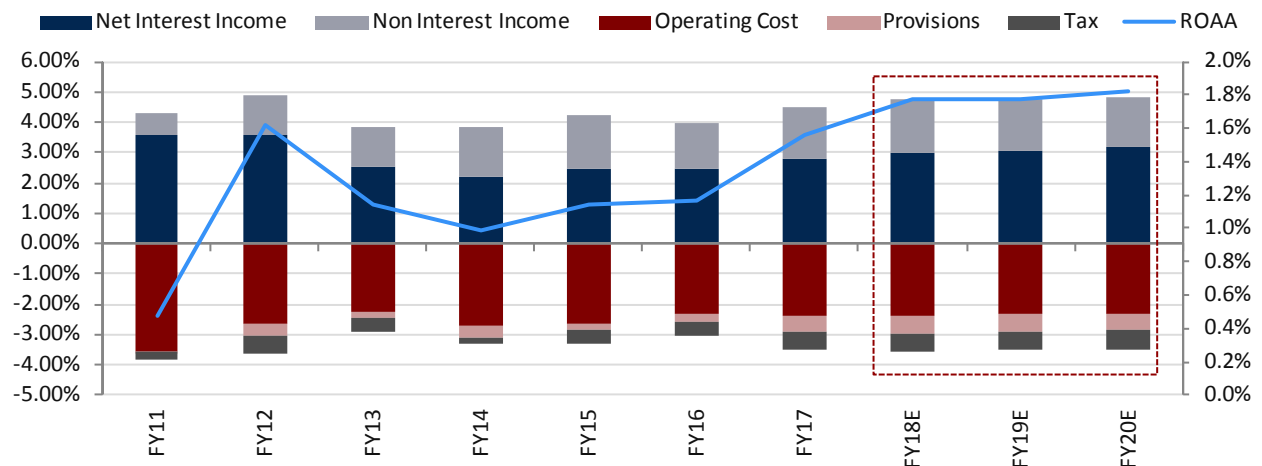
- RBK's RoAA's have been fairly erratic over the years. However, as the bank gains scale, they have gained some stability.
- We believe superlative growth, robust fee income, a tight leash on costs (despite investments in digitalization) and a hold on asset quality will lead to further improvement in RoAA (32bps over FY18-20E)

Reasons for Steady Uptick

RoA Component	Outlook
NII	Robust growth with continuous NIM uptick (declining COF owing to falling interest rates)
Other Inc	Strong fee growth and ramp up in other fee streams
Opex	Controlled expansion largely due to tight leash on staff costs (23% CAGR over 8 qtrs vs 53% CAGR in fees and ~45% in NII)
Provisions	Stable asset quality and curtailed accretion

Source: Bank, HDFC sec Inst Research

RoA Improvement Will Be Led By Falling Provisions



Source : Bank, HDFC sec Inst Research

RoAA Comparison

%	FY14	FY15	FY16	FY17
ICICIBC	1.73	1.80	1.42	1.31
AXISB	1.72	1.74	1.67	0.65
IIB	1.76	1.80	1.80	1.78
YES	1.55	1.64	1.68	1.75
FB	1.15	1.28	0.55	0.81
DCBB	1.25	1.32	1.10	0.93

Source: Bank, HDFC sec Inst Research

Deterioration in asset quality, slowdown in growth and bloating up of costs are key risks

Fund Raise

- In 1Q FY18, RBK raised ~Rs 16.8bn at Rs 515 per share (~4.7x on FY17 ABV of Rs 110). With high growth being the prime objective RBK's vision 2020, the bank will need additional capital in the near future.
- Though we have not factored it in, a capital raise of ~Rs 25bn (1.5x of prev raise at our TP of Rs 573) will lead to a 18.9% increase in ABV and 9.4% dip in EPS.

Impact Of A Fund Raise

	EPS (Rs)	ABV (Rs)
Base Case FY20E	26.85	192.3
FUND RAISE ON FY19E ABV:		
3.50x	Chg in EPS (%) (9.1)	Chg in ABV (%) 19.5
3.75x	(8.6)	20.2
4.00x	(8.1)	20.9
4.25x	(7.6)	21.4
4.50x	(7.2)	22.0

Source: Bank, HDFC sec Inst Research

Management has skin in the game

- Since the induction of the new management team in FY11, the bank has transformed from an old PVT sector bank, to a new age bank. The mgt has consistently delivered growth (loan CAGR of ~59% over FY10-17) and improved profitability Post the listing in Sept-16, the mgt has tirelessly worked towards achieving the goals set for the bank under 'VIVION 2020'

VISION 2020

METRIC	TARGET	AS ON 3QFY18
Advances	30-35%	38%
CASA Ratio	0.75-1% increase every year	Increase of 5.4% over FY16-3QFY18
Other Income	1/3 of total income	35.8%
C-I Ratio	51-52%	54%
ROA	1.5%	1.22% ann.

Source: Bank, HDFC sec Inst Research

- We believe that RBKs policy of rewarding employees heavily through ESOPs will in the banks favour. The management is aligned with the organisation's objectives and will strive to achieve the same given that top executives hold significant equity in the bank. Additionally, prudence is paramount as the

bank is still relatively small and any major shocks could be detrimental for the bank

RBK's ESOP Scheme

mn	FY14	FY15	FY16	FY16
O/S options as at beginning of FY	15.45	21.40	26.11	33.81
ADD: Granted	10.53	18.08	16.43	13.19
LESS: Exercised	3.58	11.30	6.28	13.48
LESS: Lapsed	1.00	2.07	2.45	2.54
Options outstanding	21.40	26.11	33.81	30.98

Number Of ESOPs Outstanding As A % Of Share Capital

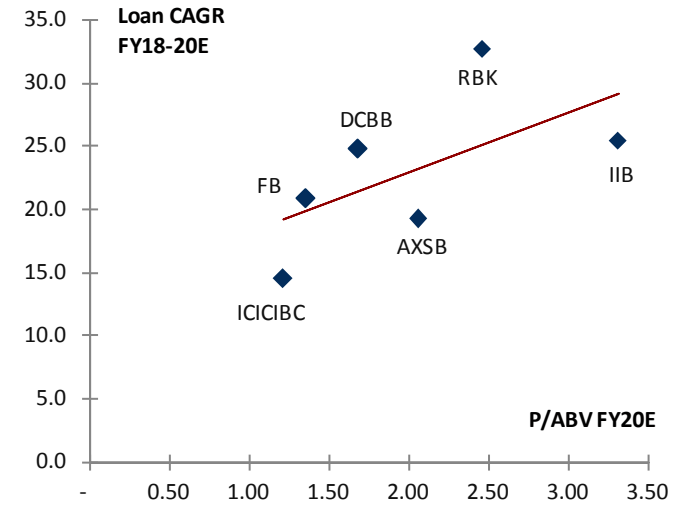
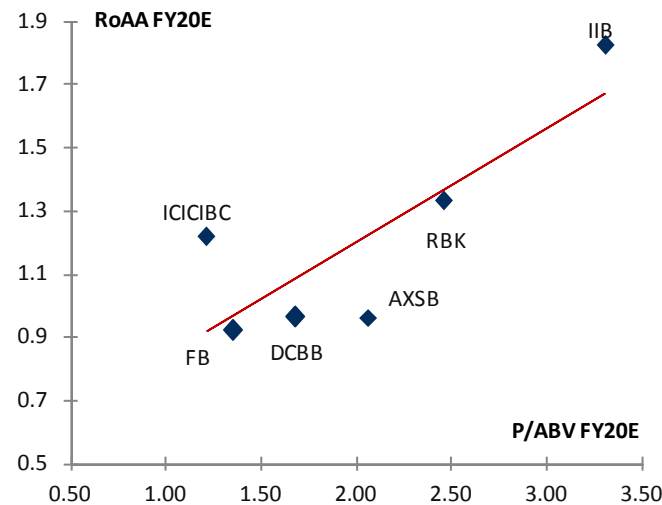
%	FY14	FY15	FY16	FY17
RBK	7.9	8.9	10.4	8.3
HDFCB	3.9	4.4	5.1	3.6
ICICIBC	2.4	2.6	3.3	3.5
AXSB	2.3	1.8	1.5	1.2
IIB	3.1	2.9	2.2	2.0
YES	5.7	4.5	4.6	3.7
DCBB	4.1	3.9	3.1	3.6

Source: Bank, HDFC sec Inst Research

View and valuation

- We believe RBK will continue its superlative growth given its small and expanding client base. With an increasing focus on Retail/SME loans, granularity of the book is set to improve
- Asset quality blips like the blow up in FI loans and slippage of one large account (~Rs 530mn in 3Q) are largely behind. Portfolio quality should remain stable hereon. RBK's focus in shorter tenure loans and negligible restructured book provides additional comfort on asset quality
- We believe that NIMs are set to expand for RBK as the share of retail loans continues to rise. Differential SA offerings will also keep low cost deposits buoyant and push CoF downwards
- RBK's robust fee profile is impressive despite being choosy on credit. Fees are largely driven by a flourishing forex franchise and a steady ramp up in distribution income. An increasing credit card base and the advent of MF distribution are future levers for growth
- **Initiate coverage with a BUY. Our TP of Rs 573 is 3x Mar-20 ABV of Rs 191.**

Peer Comparison Charts



Source : Bank, HDFC sec Inst Research

Five Quarters At A Glance

Rs mn	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY Growth	QoQ Growth
Net Interest Income	3,216	3,522	3,784	4,202	4,673	45.3%	11.2%
Non Interest Income	1,823	2,366	2,569	2,411	2,582	41.7%	7.1%
Core Fee Income	1,531	2,034	1,824	2,025	2,298	50.1%	13.5%
Treasury Income	292	331	745	386	284	-2.6%	-26.4%
Operating Income	5,038	5,887	6,353	6,612	7,255	44.0%	9.7%
Operating Expenses	2,687	3,070	3,239	3,581	3,921	45.9%	9.5%
Pre provision Profits	2,351	2,818	3,114	3,032	3,334	41.8%	10.0%
Other Provisions	362	821	945	749	823	127.6%	9.9%
PBT	1,989	1,997	2,169	2,283	2,511	26.2%	10.0%
Provision for Tax	703	695	759	776	858	22.1%	10.5%
PAT	1,287	1,301	1,410	1,506	1,653	28.5%	9.8%
APAT	1,287	1,301	1,410	1,506	1,653	28.5%	9.8%

Driven by an uptick in loan growth (+38/10% YoY/QoQ) and a 20bps sequential NIM expansion

Fee growth driven by robust expansion of distribution income (+184/53% YoY/QoQ)

Other opex grew strongly (65/16% YoY/QoQ) as the bank continues to invest in technology

The differential rate offering has helped RBK to grow well, even on a high base (demonetisation)

Broad based growth with retail (+43% YoY) and corp (+35% YoY) contributing equally

Wholesale yields dipped 20bps QoQ to ~8.9% while retail yields jumped 30bps QoQ to ~13.2%

RBK plans to open ~50 branches over FY19

As per RBI divergence, one a/c of ~Rs 530mn from the agri sector was classified as NPA. The mgt expects this to be upgraded in 4Q

Other details
Balance Sheet items/ratios

Deposits Rs bn	300.1	345.9	354.3	365.7	386.2	28.7%	5.6%
CASA Deposits Rs bn	69.6	76.1	78.3	86.7	92.7	33.2%	7.0%
Advances Rs bn	267.7	294.5	311.1	335.8	368.9	37.8%	9.9%
CD Ratio (%)	89.2	85.1	87.8	91.8	95.5	628 bps	370 bps
CAR (%)	14.6	13.7	13.4	16.6	15.9	136 bps	-62 bps
Tier I (%)	12.1	11.4	11.1	14.5	14.1	204 bps	-33 bps

Profitability

Yield on Advances (%)	11.30	10.80	10.60	10.60	10.40	-90 bps	-20 bps
Cost of Funds (%)	6.90	6.70	6.50	6.40	6.30	-60 bps	-10 bps
NIM (%)	3.40	3.52	3.54	3.70	3.90	50 bps	20 bps
Cost-Income (%)	53.3	52.1	51.0	54.2	54.0	71 bps	-11 bps
Tax Rate (%)	35.3	34.8	35.0	34.0	34.2	-115 bps	15 bps

Asset quality

Gross NPA (Rs mn)	2,847	3,568	4,578	4,872	5,799	103.7%	19.0%
Net NPA (Rs mn)	1,396	1,899	2,504	2,608	3,578	156.3%	37.2%
Gross NPAs (%)	1.06	1.20	1.46	1.44	1.56	50 bps	12 bps
Net NPAs (%)	0.52	0.64	0.81	0.78	0.97	45 bps	19 bps
Coverage Ratio calc. (%)	51.0	46.8	45.3	46.5	38.3	-1268 bps	-818 bps
Coverage Ratio reported (%)	61.0	59.6	58.0	58.3	53.5	-742 bps	-473 bps
Restructured book (%)	0.28	0.25	0.24	0.41	0.18	-10 bps	-23 bps

Source: HDFC sec Inst Research

Peer Valuations

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
KMB #	2197	1154	BUY	1291	181	205	234	44.4	34.9	28.0	5.37	4.62	3.92	13.2	13.4	14.2	1.77	1.84	1.85
ICICIBC #	1811	282	BUY	363	100	125	145	19.0	11.7	8.3	1.91	1.38	1.07	7.0	9.9	10.0	0.80	1.07	1.22
AXSB	1323	506	NEU	587	211	260	293	41.6	18.6	13.1	2.40	1.94	1.72	5.1	9.9	12.7	0.49	0.96	1.18
IIB	1079	1814	BUY	1,966	379	443	524	30.2	24.3	19.3	4.79	4.09	3.46	16.5	17.6	19.0	1.80	1.79	1.82
RBL	211	506	BUY	573	156	171	191	32.7	24.9	19.4	3.25	2.96	2.65	11.7	12.1	13.9	1.19	1.25	1.27
FB	188	97	BUY	127	57	63	71	18.7	15.0	11.7	1.70	1.54	1.37	9.5	9.9	11.6	0.80	0.85	0.93
CUB	119	180	BUY	212	56	66	77	19.6	17.1	14.8	3.22	2.73	2.34	15.8	15.5	15.5	1.64	1.63	1.58
KVB	78	107	BUY	157	63	71	79	20.8	15.6	8.8	1.70	1.51	1.36	6.6	7.8	13.3	0.57	0.68	1.08
DCBB	60	195	BUY	205	78	88	98	24.4	18.9	15.3	2.49	2.22	1.98	9.8	10.8	12.0	0.90	0.95	0.97
SBIN #	2161	241	BUY	333	80	137	175	-101.3	10.2	5.1	1.72	1.00	0.78	-0.6	5.4	10.0	-0.04	0.35	0.64
BOB	331	143	BUY	192	65	109	148	49.2	17.4	9.2	2.22	1.32	0.97	2.0	5.0	8.9	0.11	0.29	0.51
AUSFB	187	653	NEU	585	73	88	104	61.3	45.9	36.3	8.89	7.40	6.28	14.3	16.5	17.9	2.04	2.03	1.89
Equitas	51	151	NEU	165	64	66	72	177.6	40.4	20.4	2.36	2.27	2.09	1.3	5.5	10.0	0.28	1.01	1.33
Ujjivan	47	392	BUY	440	144	158	176	NA	28.6	20.6	2.71	2.49	2.23	-0.2	9.0	11.4	-0.15	1.55	1.75

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

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Earned	27,443	37,132	44,948	56,565	72,018
Interest Expended	19,251	24,918	27,566	34,041	43,568
Net Interest Income	8,192	12,213	17,382	22,523	28,450
Other Income	4,905	7,555	10,162	11,883	14,470
Fee Income (CEB)	3,440	4,912	6,662	8,625	11,047
Treasury Income	599	1,189	1,750	1,150	1,000
Total Income	13,097	19,768	27,545	34,407	42,920
Total Operating Exp	7,673	10,564	14,120	17,776	22,124
Employee Expense	3,699	4,461	5,713	7,226	8,921
PPOP	5,424	9,204	13,425	16,631	20,797
Provisions & Contingencies	924	2,362	3,762	3,939	4,513
Prov. for NPAs	1,039	1,975	3,262	3,439	4,013
PBT	4,500	6,842	9,662	12,692	16,284
Provision for Tax	1,575	2,382	3,237	4,252	5,455
PAT	2,925	4,460	6,425	8,440	10,829
Exp. Item	0	285	0	0	0
APAT	2,925	4,176	6,425	8,440	10,829

Source: Bank, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	3,247	3,752	4,156	4,156	4,156
Reserves	26,645	39,604	62,438	69,233	77,950
Shareholders' Funds	29,892	43,356	66,594	73,389	82,106
Savings	17,582	38,486	55,804	86,494	134,064
Current	27,796	37,541	44,298	56,259	71,449
Term Deposit	198,108	269,854	318,448	407,635	521,794
Total Deposits	243,487	345,881	418,550	550,388	727,307
Borrowings	105,362	79,798	90,672	103,178	117,560
Other Liabilities and Provisions	12,870	17,713	20,642	24,064	28,876
Total Liabilities	391,611	486,748	596,458	751,018	955,849
APPLICATION OF FUNDS					
Cash and Bank Balance	24,499	41,936	43,868	39,127	43,466
Investments	144,359	134,815	143,047	169,447	200,585
G-Secs	102,820	98,012	108,823	137,597	170,917
Advances	212,291	294,490	391,910	522,746	690,407
Fixed Assets	1,773	2,587	2,781	2,990	3,139
Other Assets	8,690	12,916	14,853	16,708	18,252
Total Assets	391,611	486,746	596,458	751,018	955,849

Source: Bank, HDFC sec Inst Research

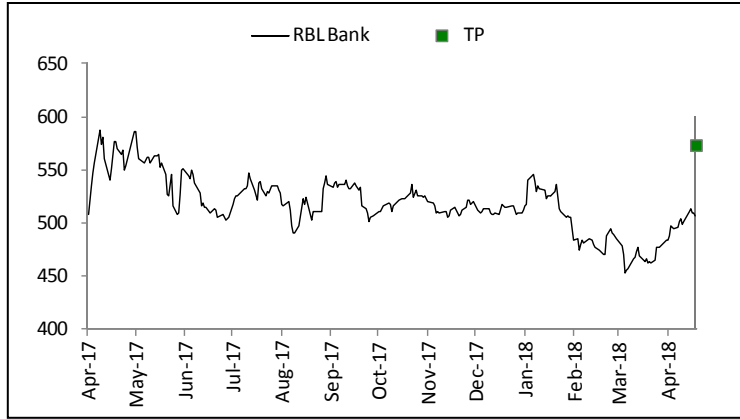
Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
Valuation Ratios					
EPS	9.0	11.1	15.5	20.3	26.1
Earnings Growth (%)	41.2	42.8	53.9	31.4	28.3
BVPS (ex reval.)	92.0	115.5	160.2	176.6	197.5
Adj. BVPS (ex reval. and 100% cover)	88.2	110.4	155.7	171.2	191.0
DPS (Rs)	1.5	1.8	2.5	3.3	4.2
ROAA (%)	0.88	0.95	1.19	1.25	1.27
ROAE (%)	11.2	12.2	11.7	12.1	13.9
P/E (x)	56.2	45.5	32.7	24.9	19.4
P/ABV (x)	5.74	4.58	3.25	2.95	2.65
P/PPOP (x)	30.3	20.6	15.7	12.6	10.1
Dividend Yield (%)	0.3	0.4	0.5	0.7	0.8
Profitability					
Yield on Advances (%)	10.95	10.42	10.14	9.89	9.69
Yield on Investment (%)	6.14	7.03	6.95	6.90	6.85
Cost of Funds (%)	6.83	6.35	5.82	5.78	5.95
Cost of Deposits (%)	7.27	6.65	6.26	6.13	6.02
Core Spread (%)	4.12	4.07	4.32	4.11	3.74
NIM (%)	2.65	3.02	3.51	3.59	3.53
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	2.32	2.41	2.61	2.64	2.59
Cost-Income Ratio (Excl Treasury)	61.39	56.86	54.74	53.45	52.78
Balance Sheet Structure Ratios					
Loan Growth (%)	46.9	38.7	33.1	33.4	32.1
Deposit Growth (%)	42.4	42.1	21.0	31.5	32.1
C/D Ratio (%)	87.2	85.1	93.6	95.0	94.9
Equity/Assets (%)	7.6	8.9	11.2	9.8	8.6
Equity/Loans (%)	14.1	14.7	17.0	14.0	11.9
CASA (%)	18.6	22.0	23.9	25.9	28.3
Total Capital Adequacy Ratio (CAR)	12.9	13.7	16.3	14.1	12.3
Tier I CAR	11.1	11.4	14.4	12.6	11.1

	FY16	FY17	FY18E	FY19E	FY20E
Asset Quality					
Gross NPLs (Rs mn)	2,081	3,568	5,121	6,092	7,278
Net NPLs (Rs mn)	1,245	1,900	1,880	2,204	2,691
Gross NPLs (%)	0.98	1.20	1.31	1.17	1.05
Net NPLs (%)	0.59	0.64	0.48	0.42	0.39
Slippages (%)	1.12	2.11	1.70	1.50%	1.25
Coverage Ratio (%)	40.2	46.8	63.3	63.8	63.0
Provision/Avg. Loans (%)	0.45	0.60	0.82	0.64	0.55
RoAA Tree					
Net Interest Income	2.47%	2.78%	3.21%	3.34%	3.33%
Non Interest Income	1.48%	1.72%	1.88%	1.76%	1.70%
Treasury Income	0.18%	0.27%	0.32%	0.17%	0.12%
Operating Cost	2.32%	2.41%	2.61%	2.64%	2.59%
Provisions	0.28%	0.54%	0.69%	0.58%	0.53%
Provisions for NPAs	0.24%	0.35%	0.52%	0.43%	0.39%
Tax	0.48%	0.54%	0.60%	0.63%	0.64%
ROAA	0.88%	1.02%	1.19%	1.25%	1.27%
Leverage (x)	12.70	11.99	9.85	9.63	10.98
ROAE	11.21%	12.18%	11.69%	12.06%	13.93%

Source: Bank, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
23-Apr-18	506	BUY	573

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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