HDFC Bank

BSE SENSEX	S&P CNX
39,750	11,929

CMP: INR2,416 TP: INR2,780(+15%) Buy

Getting bigger, better and stronger

Growth momentum intact; competitive positioning to improve

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	2,723
M.Cap.(INRb)/(USDb)	6584.4/94.5
52-Week Range (INR)	2449/1884
1, 6, 12 Rel. Per (%)	4/4/5
12M Avg Val (INR M)	6734
Free float (%)	78.6

Financials Snapshot (INR b)

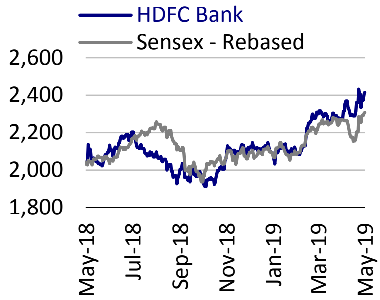
Y/E MARCH	FY19	FY20E	FY21E
NII	482.4	592.6	716.9
OP	397.5	496.1	609.1
NP	210.8	257.1	314.7
NIM (%)	4.4	4.4	4.3
EPS (INR)	79.3	94.4	115.6
EPS Gr. (%)	16.9	19.1	22.4
BV/Sh. (INR)	547.9	624.3	720.6
ABV/Sh. (INR)	522.8	594.2	683.9
RoE (%)	16.5	16.1	17.2
RoA (%)	1.8	1.9	1.9
Payout (%)	20.8	19.1	16.7
Valuations			
P/E(X)	30.5	25.6	20.9
P/BV (X)	4.4	3.9	3.4
P/ABV (X)	4.6	4.1	3.5
Div. Yield (%)	0.7	0.7	0.8

Shareholding pattern (%)

As On	Mar-19	Dec-18	Mar-18
Promoter	21.4	21.4	20.9
DII	13.4	13.0	12.4
FII	50.5	50.5	51.3
Others	14.7	15.0	15.4

FII Includes depository receipts

Stock Performance (1-year)



Takeaways from the Annual Analyst Meet

We attended HDFC Bank's (HDFCB) Annual Analyst Meet, wherein the bank highlighted the progress that its different businesses are making and the steps being undertaken to maintain its strong competitive positioning and deliver sustainable growth. HDFCB remains confident about its strategy to deepen presence in the suburban and rural regions and offer full product suite to customers. Moreover, the bank highlighted that its strong analytics, faster turnaround time and targeted customer servicing will ensure enhanced relationship value in metro/urban regions. Management also shared its views on various areas, ranging from succession planning to digital initiatives, competitive positioning, subsidiary performance and the journey ahead. This note captures the detailed takeaways from the meet and we have followed it up with our thoughts on the bank.

Key takeaways from session with Mr Aditya Puri – MD & CEO

- **Macro**: A lot of work has been done by the government in sectors like road, electricity and broadband in rural areas. Overall, the credit culture in the banking system has improved, though there can be criticisms and arguments against the efficacy of banking reforms (IBC etc.) and other RBI measures for tackling stressed assets.
- The bank is waiting for the RBI's decision on succession planning and is fully prepared for either verdict by the central bank. Mr Puri does not see any disruption to the growth trajectory post his retirement and continues to see healthy growth opportunities across product segments. ***He believes that the best is yet to come for the bank.***
- HDFCB had slowed down its branch expansion over the last few years (average 194 branches added every year over the past three years), but is now looking to increase this pace to ~700 branches in the next 3-4 years. The bank believes that smaller towns have a fair bit of liquid pockets and cross-sell opportunities.
- **Digital Banking:** C/I ratio is likely to maintain its gliding path, despite aggressive branch expansion and continued investments in digital initiatives.
- **Subsidiaries**: **HDFC Securities Ltd** – it is a highly profitable and cash-rich company delivering consistently high RoEs. There are no plans to unlock value here in the near term. **HDB Financial** – it is a diversified player with a presence in consumer, commercial and SME lending. It works on a low-cost model and has 1,361 branches across 961 locations. It has grown its loan book at ~35% CAGR for the past 10 years, with relatively strong asset quality and an RoE of ~18%.

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Growth visibility remains strong; balance sheet size is 'just a number'

Over the past 10 years, HDFCB has steadily grown its loans/deposits market share to ~8.4%/7.3% of the system, driven by steady branch addition (up 3.6x from 1,412 in FY09 to 5,103 in FY19), employee productivity improvement (PAT/employee up 5x over FY09-19) and effective use of technology to gain distribution efficiency (cost-income ratio improved by 1,200bp from 52% to 40% over FY09-19). The bank has also captured the highest incremental market share amongst peers. We expect HDFCB to continue gaining market share to reach 10% by FY22, driven by robust growth across both the retail and wholesale businesses.

Cost-ratios to glide lower; dividends from digital strategy to continue

HDFCB has channelled its digital abilities to reduce the involvement of manpower in routine, process-driven operations, with an aim to enable employees to focus more on business generation. Initiatives such as 10-second personal loans, online loan against shares/mutual funds, pre-approved auto loans and, more recently, online SME loan up to INR50m (TAT of three hours) have helped reduce sourcing cost, leading to a steady improvement in the cost-ratios. Over the past five years, the C/I ratio has improved by ~600bp to 41%, while the cost-asset ratio has reduced to 2.1%. The bank aims to speed up its branch expansion plan (guided to add 700 new branches every year for the next 3-4 years). However, the increasing digitalization push and the improving productivity levels will enable a further improvement in the cost ratios.

Loan growth to remain steady; vehicle financing outlook remains modest

HDFCB has delivered a loan book CAGR of 21% over the past three years, significantly ahead of systemic loan growth. The enhanced focus on rural and semi-urban locations has helped the bank to gain strong traction in retail and SME loans. However, growth in the vehicle book has moderated, reflecting the slowdown in new vehicle sales. SME loan growth has also received a boost from digitization of the application process, which has reduced the turnaround time (TAT). While the share of unsecured personal and credit card loans has increased, the bank's credit monitoring framework remains robust, helping it maintain a strong control on delinquency levels. The bank has 50%+ market share in the credit card business and it targets to double its outstanding card base over the next three years.

Customer acquisition to accelerate, drive cross-selling opportunities

HDFCB plans to quadruple the number of touch points in the rural region over the next two years, while the scaling up of its 'Virtual Relationship Management' program will help improve customer relationship value. With several process changes, the bank is looking at a massive increase in the number of accounts opened per branch per day from 1.8 to 3 over the next 18 months. This will drive healthy growth in liabilities and offer higher cross-selling opportunities.

Subsidiaries making strong progress; expected to add ~6% to valuations

Both HDB Financials and HDFC Securities have grown robustly over the last three years. While HDB Financials has achieved AUM of INR565b, HDFC Securities has recorded ~35% PAT CAGR over FY16-19, with RoE improving to a healthy level of 27%-28% from 22% in FY16. We expect both the subsidiaries to maintain their strong growth trajectory over the next few years. At 25x FY21E earnings for HDFC Securities and 4x FY21E BV for HDB Financials, the two subsidiaries together would add INR168 to our TP, post hold-co discount of 20%, which corresponds to 6% of total SOTP valuation.

Valuation view

HDFCB has been consistently gaining market share across retail product segments. The bank's strong capitalization and liquidity levels are likely to help it sustain this growth momentum. We expect HDFCBK to deliver 22%/22% loan book/PAT CAGR over FY19-21. Margins are likely to remain stable, while strong control on operating leverage is likely to result in steady return ratios (RoA/RoE of 1.9%/17.2% in FY21E). We maintain our **Buy** rating with a target price of INR2,780 (3.8x FY21E ABV).

Key takeaways from session with top management

Mr. Aditya Puri – MD & CEO

- **Macro**: A lot of work has been done by the government in sectors like road, electricity and broadband in rural areas. Overall, the credit culture in the banking system has improved, though there can be criticisms and arguments against the efficacy of banking reforms (IBC etc.) and other RBI measures for tackling stressed assets.
- He believes that the development in payments systems and smartphone solutions will help transforming India into a cashless/digital economy.
- The bank has been offering all the products to the customers in semi-urban/rural regions over the past 7-8 years. The health insurance product in rural regions is working reasonably well for the bank.
- The bank is waiting for the RBI's decision on succession planning and is fully prepared for either verdict by the central bank. Mr Puri does not see any disruption to the growth trajectory post his retirement and continues to see healthy growth opportunities across product segments. ***He believes that the best is yet to come for the bank.***
- The bank, over the past years, has been focusing strongly on customer acquisitions, and thus, the **number of accounts opened per branch per day** has improved from 1.2 to 1.8. This is expected to further improve to 3 accounts per branch per day over the next 18 months.
- HDFCB had slowed down its branch expansion over the last few years (average 194 branches added every year over the past three years), but is now looking to increase this pace to ~700 branches in the next 3-4 years. The bank believes that smaller towns have a fair bit of liquid pockets and cross-sell opportunities.
- The bank has ~20,000 personal bankers and RMs managing ~3m wealth and HNI customers (of the total 40m-50m customers), who provide ~40%-50% of the total retail business.
- The bank has successfully run a pilot in which 1.5m customers were carved out for **Virtual Relationship Program** as an experiment. The bank is now live with Virtual RM program and covers 6m customers. The revenue from these 6m customers should be close to that of one customer managed via a physical RM. Around 90% of the needs of customers are settled via calls. It further believes that, over the next few years, ~50% of the total customers will either be served through RMs or Virtual RMs. This, in turn, will provide a large opportunity on the retail side.
- The bank further expects the number of touch points in rural region to quadruple over the next two years, enabling higher cross sell and stronger growth.
- **Payments side**: ~40% of the physical swipes and 50% of the e-commerce transactions happen through the HDFCB platform. Further, the bank has a market share of 28% in total POS machines across 2.5m merchants (a total of 50m merchants exist). This is also reflective of the huge growth potential.
- **Digital Banking**: C/I ratio is likely to maintain its gliding path, despite aggressive branch expansion and continued investments in digital initiatives. The bank will continue working on launching more customer-friendly digital solutions over the

next 6-8 months and believes that the quality of digital products and customer experience will continue to improve.

- **On the fee income side**, distribution fees have been impacted largely by the regulatory changes. However, the bank is not worried in the long term, as this will come into the base effect and eventually become a volume game, where it is expected to do well. Around 90% of the total fee pertains to transaction banking. The bank expects core fee income to pick up going forward.
- **Subsidiaries: HDFC Securities Ltd** - it is a highly profitable and cash-rich company delivering consistently high RoEs. There are no plans to unlock value here in the near term. **HDB Financial** - it is a diversified player with a presence in consumer, commercial and SME lending. It works on a low-cost model and has 1,361 branches across 961 locations. It has grown its loan book at ~35% CAGR for the past 10 years, with relatively strong asset quality and an RoE of ~18%.

Session #1: Wholesale Banking – Kaizad Bharucha (ED), Rahul Shukla (Head Corporate and Business Banking) and Jimmy Tata (CRO)

- **Wholesale Banking segments include** large corporates, emerging corporates, business banking/SME and infrastructure, and supply chain management. **Ticket-size breakup**: Large Corporates - INR7.5b+, ECG - INR2.5-7.5b, BB and SME – up to INR2.5b.
- The bank has ~8% market share in wholesale credit (excluding NPAs). It expects an untapped wholesale credit opportunity of INR29.1t v/s current wholesale loan book of INR4.1t.
- The supply chain and cash management business of the bank is extremely strong.
- Around ~30-35% of the total wholesale book are term loans. The bank is not averse to infrastructure lending, provided underwriting standards are met.
- **Wholesale lending strategy**: Deepening wallet share of existing customers, new to business (NTB) client focus remains high; other focus area include improving digitalization and automation, increasing/widening geographical reach and increasing the number of products offered to the existing customer base.
- **NBFC funding to SMEs**: NBFCs were operating/lending to the lower edge of banking customers, and thus, the bank does not see any material impact from slowdown in NBFCs.
- Wholesale lending products like structured/mezzanine financing are seeing some withdrawal in marketplace; however, the bank does not focus on this business, and thus, will be insulated to any stress buildup in this segment.
- **Implementation of highest corporate governance standards in taking business decisions**: The bank does not eliminate human intervention in making credit decisions, but removes the human bias by keeping risk management department independent of all growth targets. Also, three people need to sign every single proposal (risk rating authority, seniority of approver, introductory). The bank's objective is to remove human bias and not the judgment.
- The bank follows **Risk Adjusted Return on Capital (RAROC)** thresholds across every segment, but it didn't quantify the same.

Session #2: SME Banking – Rahul Shukla, Arvind Kapil (Head – Retail lending excl. Vehicle loans)

- Avg. ticket size in SME banking is INR5.0-5.5m. The bank focuses on lending based on geography specific business community, such as Ludhiana (cycle parts), Pune (auto spare parts), Mumbai/Delhi (franchise and kirana stores) and South (agro processing units).
- The share of private banks in MSME lending has increased to 34% from 20% five years ago (PSUs share at 46%, NBFCs at 13%, HDFC Bank at 8.2%). HDFCB MSME loans outstanding stood at INR1.29t v/s system MSME loans outstanding at INR14.8t.
- **Customer segments**: Caters to manufacturers, retail traders and service providers. Around 49% of the bank's MSME exposure is in less than the 10m bucket, and this segment accounts for 98.6% of total borrower accounts. Majority of the borrowers in this segment are traders. Also, most of the new customers on board are through branches.
- **Digital offerings**: Approval in three hours for loans below INR50m.
- **Asset quality**: Delinquency trends in this segment are lowest v/s peers.
- Also, HDFCB would normally be a sole lender in loans ticket-size of less than INR20m.

Session #3: Operations & Technology: Bhavesh Zaveri & Munish Mittal

Payment Products

- HDFCB processes ~23.2m cheques per month (INR1,750b in value). The bank has 14%/10% market share in RTGS/NEFT volumes. On value basis, the market share works out to be 22%/14%. Cumulative value of transactions processed under RTGS/NEFT are INR4,268b/INR4,140b.
- The bank handles currency chest operations worth INR 490b in a year.
- The bank has a 38% market share in card acquisition and a loan book size of INR450b.
- Management is of the view that APP-based transactions are increasing convenience for the customers and new features will make the transactions frictionless/quicker.
- Offerings – Card, EPI, UPI, Net Bkg, IMPS, NEFT, CMS/eCMS.

Technology

- The bank is making all-out efforts to create end-to-end banking products on the digital platform and making the customers adapt to the same. Some examples are 10-sec personal loans, loan against security and mutual funds.
- The new version of mobile banking is up and running, and ~0.5m unique customers use it every day. It has built APIs for banking innovation/client connectivity/client integration/banking as a platform.
- Although several options are available to the customers for UPI transactions, the banks still maintains 14-16% market share across key digital products.
- The bank aims to serve 75m customers, with 7,500 branches over the next three years.
- HDFCB is preparing for 4b transaction a month/120-130m transactions a day in the next three years.

Session #4: Retail Liabilities – Arvind Vohra (Group Head – Branch banking), Sampath Kumar (NRI banking), Smita Bhagat (Govt & Institutional banking)

- **Key pillars of strategy**: Targeted segmented play, sales digitalization and customer experience excellence.
- **New customer acquisition**: Per branch customer acquisition has improved from 1.2/day in FY18 to 1.85/day in FY19; the bank expects to scale it up further.
- **Virtual relationship channel** offers a platform for personalized banking, advisory experts, widening customer base, etc. The bank is targeting 10m customer base by 2020 (v/s FY17/18/19: 3m/4.4m/5.7m). It has increased RMs on this platform from 1,800 to 3,500. Current customer mix: Metro - 58%, Urban - 23%, Semi-urban & Rural - ~19%.
- Government banking: Thrust areas are both central and state government. Healthcare, religious trusts, clubs, associations are the focus areas in institutional banking.
- Government finances are an INR27.8t opportunity (53 ministries, 435 autonomous bodies). The strategy is to focus on 14th Finance Commission scheme and providing technology solutions for the movement and management of funds.
- **CSCs distribution reach**: 3.05 lakhs active centers spread across 2.25 lakhs Gram Panchyat and 82,350 total centers in rural areas. It works on a hub & spoke model. This network helps grow small merchants and small loan segments. These centers are shops with area of min 150 sq.ft.
- **Benefits of CSC:** Increased network, nil infra and manpower cost, low cost of acquisition and low cost of servicing.
- Focus on higher RoE in rural/semi urban segment v/s urban segment.
- The bank has total 38 retail liability products (a few can't be sold by VRMs).

Session #5: Retail assets – Ashok Khanna (Head Vehicle Finance), Arvind Kapil & Rajesh Kumar (Head of Risk – Retail Assets)

- HDFCB has auto loan book outstanding of INR1.5t (~20% market share) with ~5m live customers. It finances auto loans across the value chain and has also introduced digital initiatives in the recent past for the faster processing of the same. It has 20% share in vehicles financed.
- Some of the factors affecting the auto industry/space are: (a) slowdown in the SME and real estate space, (b) Uberification across locations, leading to lower car sales - number of cars in family have gone down and (c) increase in the ownership cost due to a rise in insurance cost and BS VI implementation.
- Management is expecting sales of CNG vehicles to grow faster in the near future, as issues related to EV infrastructure and the cost of changing the battery in EV will keep the cost high.
- Due to the recent slowdown in auto volumes, inventory levels are higher than average and ~300 dealerships have closed down in the last 18 months. Also, LTVs for the bank have come down to 75-80% from 90% earlier.
- The bank does not have any exposure to commercial real estate and is completely guarded against affordable housing or SME-related issues.

- **Opportunity:**
  - **Online**: Digital marketplace, e-commerce platform and fintech are some of the opportunities that the bank can undertake to drive auto loans.
  - **In semi urban and rural areas**, some of the alliances like CSC, KGC, SLI and SFBs (Ujjivan) have helped the bank register ~5K to 6K volumes in a month. Over the last two years, the bank did ~1.2m loans each year in two wheelers through these partnerships.
- ~ 70% to 80% of retail loan sourcing is happening through internal customers. ATS in personal loans is at ~INR0.35m, in business loans at INR0.7m and in working capital loan at INR6m.
- Over the last 3-4 months, the election overhang has impacted vehicle sales. On two-wheeler front, the increased price and insurance cost has impacted growth.
- The slowdown will last a little longer as costs are not going to come down, but with elections getting over, the growth trend is likely to get better.

Session #6: Cards & Payments – Parag Rao (Head Cards & Payments)

- Credit card book is INR469b and spends is INR1.64t.
- Credit card numbers is 125m.
- All digital acceptances under one device.
- ~50% of the transactions are done in physical form, whereas the balance 50% is carried out in the electronic form. ~12 to 13% of the consumer spends are via electronic form.
- According to management, new competition is not a concern as of now. Wallets are one of the first port of call for customer acquisition for the bank. Also, JIO will help capture new to category merchants for the bank.
- Agnostic to customer choosing any payment mechanism. It aims to provide the full banking product suite to the customer and increase customer value
- With entry of more players, the payment market will only expand – doesn't see it as a threat to long-term growth.

Session #7: Subsidiaries

HDB Financials – Delivering steady growth and profitability

- Company has AAA rating since Mar-11. It has launched new products every year.
- Product segments – Consumer loans (starts at 7k loan for consumer durable, forms 12% of loans), Commercial loans (starts from 2L), SME loans (50% of book), FEE & Third Party Products.
- Liability mix – NCD: 47%, Term loans: 35%, CPs: 9%, Others: 9%.
- 25% of loans run-off in the next 12 months. Against that, CP mix is only 9%.
- Have presence in 961 locations via 1,350 branches.
- Branch coverage: 10km for unsecured loan and 100km for bigger loans.
- Focus on Phygital: Coverage supported by digitally enabled processes.
- NNPA ratio of 1.12% as on Mar'19.
- NBFC – has a lot of new to credit customers; CIBIL is just one of the variable being used.
- Cost to income ratio in NBFC will depend upon the mix of the lending; longer-term consumer lending business will have a higher CI ratio. Overall C/I ratio is at 38% and management seems comfortable with it.
- Operations of the entity are spread out across 1,350 branches in 960 cities.
- As of FY19, CAR stands at 17.9%, of which ~5% is sub-ordinated debt.
- Subvention is the prime means to do the consumer durable business.
- Top 20 borrowers amount to INR2.38b. No worries on liability repayment but need it to maintain growth momentum.

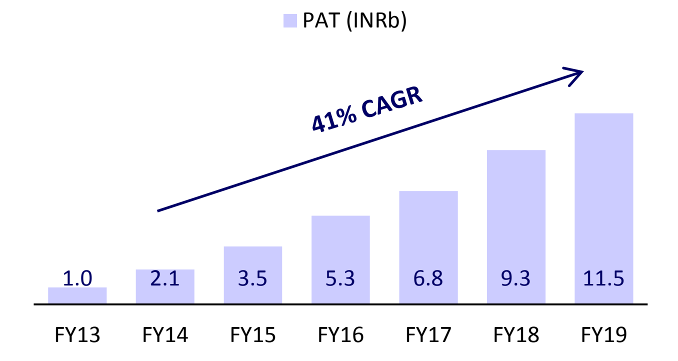
- Short-term money and up to 3 years is available in plenty, which can take care of most of the asset products. Company doesn't need long-term money (>5 years).

Exhibit 1: HDB Financials: Asset quality and capital adequacy ratios (%)

	FY15	FY16	FY17	FY18	FY19
GNPA (%)	0.84%	1.23%	1.45%	1.58%	1.78%
NNPA (%)	0.48%	0.73%	0.85%	0.96%	1.12%
GNPA (dpd)	180	150	120	90	90
CAR (%)	23.02%	19.23%	20.79%	17.94%	17.91%

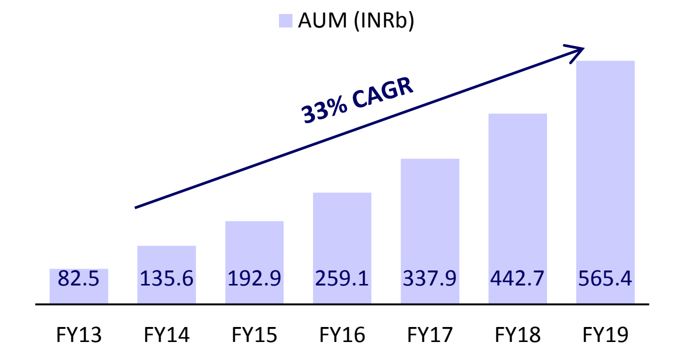
Source: MOFSL, Company

Exhibit 2: HDB Financials: PAT CAGR of 41% over FY14-19…



Source: MOFSL, Company

Exhibit 3: HDB Financials: AUM CAGR of 33% to INR565b (as of FY19)

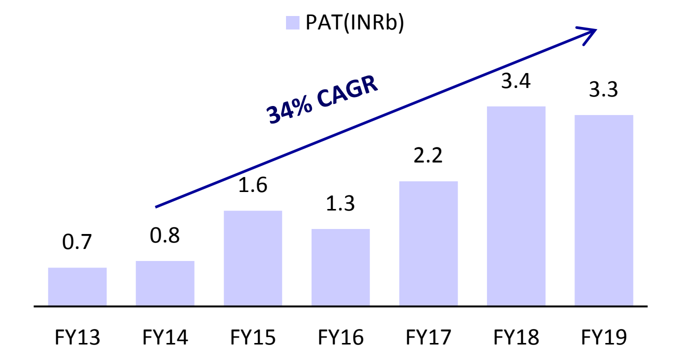


Source: MOFSL, Company

HDFC Securities – robust return ratios, strong customer acquisition rate

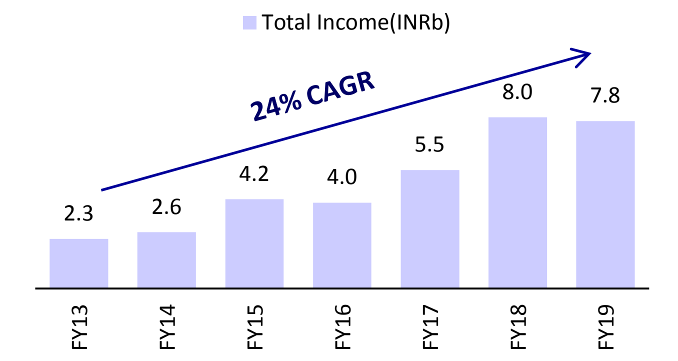
- HDFC Securities has ~2.2m customers (33% active client-ratio) and serves as a full-service brokerage house at the cost of a discount brokerage house.
- It has ~0.3m live SIPs with ~0.7m trading accounts, of which ~68% are digitally transacting customers. Management plans this to increase this number to 80% over the next couple of years.
- Majority of the acquisition of customers is happening through 2,500 branches of HDFCB. It is also looking at acquisition beyond HDFCB customer.
- Management is planning to launch HDFC Sec Demat account in August. Robust non-cyclical income (INR2.56b) – accounts for 33% of total revenues. 89% of the opex is covered by non-brokerage revenue.
- Lowest C/I ratio at ~37% (FY19). HDFCB customer base stands at 450L, while HDFC Securities customer base is at 21.5L. This implies huge cross-selling opportunity over the next few years.

Exhibit 4: HDFC Sec: PAT CAGR of 34% over FY14-19…



Source: MOFSL, Company

Exhibit 5: HDFC Sec: …and income CAGR of 24% over the similar period



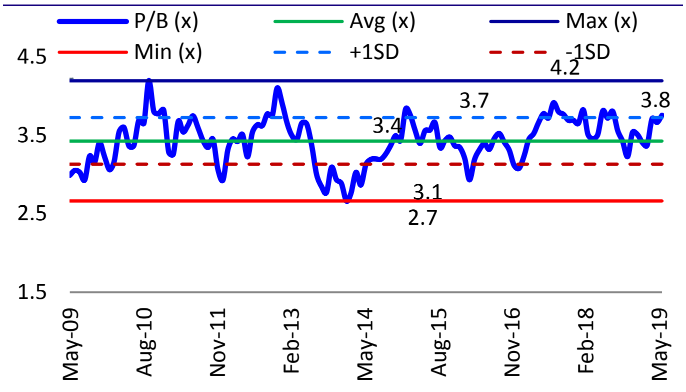
Source: MOFSL, Company

Valuation and view

Buy with a TP of INR2,780 (3.8x FY21E ABV for the bank)

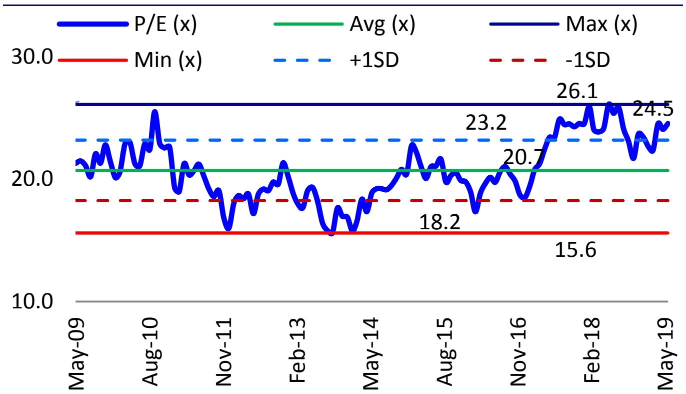
- Structural drivers are in place, with (1) CASA ratio above 40%, (2) opportunities for the significant market share gains, (3) improving operating efficiency led by digitalization initiatives, (4) expected traction in income due to strong expansion in branch network and (5) best-in-class asset quality.
- Post demon, the improvement in retail loan growth was impressive, especially when the bank was focused on cutting flab from the system. Retail loan growth is reviving strongly, with the contribution from high-RoE retail products like unsecured personal loans, LAS and credit cards going up. HDFCB is seeing strong loan growth, indicating market share gains.
- Helped by the strong benefit on cost of funds, the bank has been aggressive in gaining market share in retail/corporate loans. We expect the trend to continue, considering that many of the competitors are struggling with their own issues like capitalization and asset quality.
- We have seen some pickup in investments in branches/ATMs and calibration in workforce to maintain healthy deposit growth. The C/I ratio of the bank is continuously improving due to productivity from the existing investments. PPoP growth is expected to be healthy at 24%+ and PAT growth is expected to be 22% over FY19-21.
- Despite pricing pressure, NIMs moderation is expected to be limited due to (a) high CASA ratio above 40%, (b) benefit of high share of fixed rate retail loans and (c) likely rise in the high-yielding retail loans contribution.
- HDFCB has been consistently gaining market share across retail product segments. The bank's strong capitalization and liquidity levels are likely to help it sustain this growth momentum. We expect HDFCBK to deliver 22%/22% loan book/PAT CAGR over FY19-21. Margins are likely to remain stable, while strong control on operating leverage is likely to result in steady return ratios (RoA/RoE of 1.9%/17.2% in FY21E). We maintain our **Buy** rating with a target price of INR2,780 (3.8x FY21E ABV).

Exhibit 6: One-year forward P/BV



Source: MOFSL, Company

Exhibit 7: One-year forward P/E



Source: MOFSL, Company

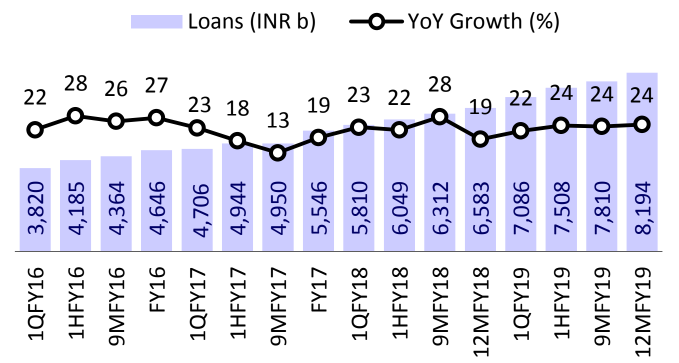
Exhibit 8: DuPont Analysis: Improvement in operating leverage to lead to higher profitability (%)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Interest Income	**4.14**	**4.25**	**4.21**	**4.16**	**4.18**	**4.26**	**4.23**
Core Fee Income	1.2	1.2	1.1	1.3	1.2	1.17	1.12
Trading and others	0.4	0.4	0.4	0.3	0.3	0.29	0.27
Non-Interest income	**1.7**	**1.7**	**1.6**	**1.6**	**1.5**	**1.46**	**1.39**
Total Income	**5.37**	**5.48**	**5.33**	**5.74**	**5.71**	**5.72**	**5.61**
Operating Expenses	**2.59**	**2.61**	**2.51**	**2.35**	**2.26**	**2.15**	**2.02**
Employee cost	0.88	0.88	0.82	0.71	0.67	0.63	0.58
Others	1.71	1.74	1.68	1.65	1.59	1.52	1.44
Operating Profits	**3.22**	**3.29**	**3.27**	**3.38**	**3.44**	**3.57**	**3.59**
Core operating Profits	**2.79**	**2.86**	**2.83**	**3.11**	**3.15**	**3.28**	**3.32**
Provisions	**0.38**	**0.42**	**0.46**	**0.61**	**0.65**	**0.74**	**0.76**
PBT	**2.83**	**2.87**	**2.82**	**2.77**	**2.79**	**2.82**	**2.83**
Tax	0.94	0.98	0.97	0.96	0.96	0.97	0.98
RoA	**1.89**	**1.89**	**1.85**	**1.81**	**1.83**	**1.85**	**1.86**
Leverage (x)	10.3	9.6	9.7	9.8	9.0	8.7	9.3
RoE	**19.4**	**18.3**	**17.9**	**17.9**	**16.5**	**16.1**	**17.2**

Source: MOFSL, Company

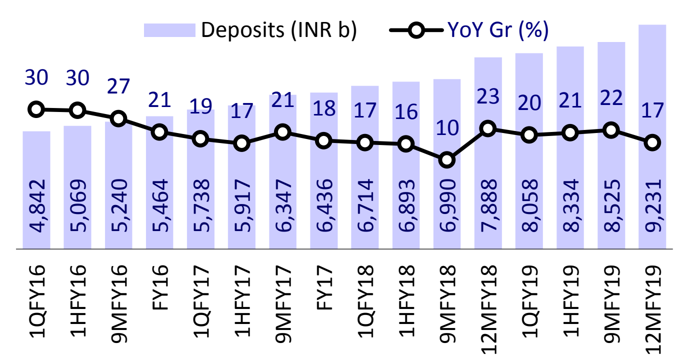
Story in Charts

Exhibit 9: Loans grew 24% YoY (5% QoQ)



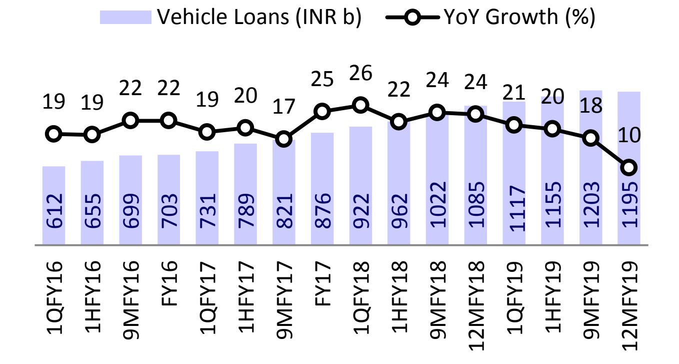
Source: MOFSL, Company

Exhibit 10: Deposits up 17% YoY



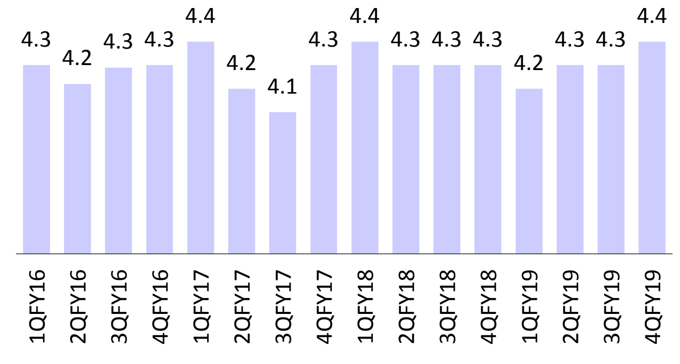
Source: MOFSL, Company

Exhibit 11: Vehicle loans grew by 10% YoY



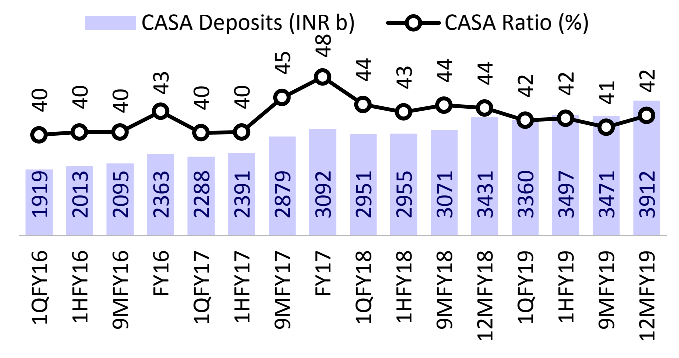
Source: MOFSL, Company

Exhibit 12: NIM expands to 4.4%



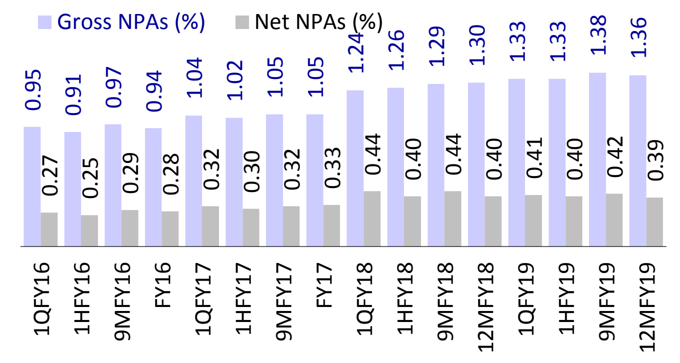
Source: MOFSL, Company

Exhibit 13: CASA ratio increased to 42.4%



Source: MOFSL, Company

Exhibit 14: Asset quality ratios improve



Source: MOFSL, Company

Financials and Valuations

Income Statement (INRb)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	411.4	484.7	602.2	693.1	802.4	989.7	1,228.2	1,483.5
Interest Expense	226.5	260.7	326.3	361.7	401.5	507.3	635.6	766.6
Net Interest Income	**184.8**	**224.0**	**275.9**	**331.4**	**400.9**	**482.4**	**592.6**	**716.9**
Growth (%)	16.9	21.2	23.2	20.1	21.0	20.3	22.8	21.0
Non Interest Income	79.2	90.0	107.5	123.0	152.2	176.3	202.7	235.1
Total Income	**264.0**	**313.9**	**383.4**	**454.4**	**553.2**	**658.7**	**795.3**	**952.0**
Growth (%)	16.5	18.9	22.1	18.5	21.7	19.1	20.7	19.7
Operating Expenses	120.4	139.9	169.8	197.0	226.9	261.2	299.2	343.0
Pre Provision Profits	**143.6**	**174.0**	**213.6**	**257.3**	**326.2**	**397.5**	**496.1**	**609.1**
Growth (%)	25.7	21.2	22.7	20.4	26.8	21.8	24.8	22.8
Core PPP	**122.2**	**150.3**	**184.5**	**220.9**	**311.0**	**373.6**	**467.0**	**575.9**
Growth (%)	25.2	23.0	22.7	19.7	40.8	20.1	25.0	23.3
Provisions (excl tax)	15.9	20.8	27.3	35.9	59.3	75.5	103.5	128.6
PBT	**127.7**	**153.3**	**186.4**	**221.4**	**267.0**	**322.0**	**392.6**	**480.5**
Tax	42.9	51.1	63.4	75.9	92.1	111.2	135.4	165.8
Tax Rate (%)	33.6	33.4	34.0	34.3	34.5	34.5	34.5	34.5
PAT	**84.8**	**102.2**	**123.0**	**145.5**	**174.9**	**210.8**	**257.1**	**314.7**
Growth (%)	26.0	20.5	20.4	18.3	20.2	20.5	22.0	22.4

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	4.8	5.0	5.1	5.1	5.2	5.4	5.4	5.4
Reserves & Surplus	430.0	615.1	721.7	855.6	1,057.8	1,486.6	1,694.6	1,956.9
Net Worth	**434.8**	**620.1**	**726.8**	**860.7**	**1,063.0**	**1,492.1**	**1,700.0**	**1,962.3**
Deposits	3,673.4	4,508.0	5,464.2	6,436.4	7,887.7	9,231.4	11,308.5	13,796.3
Growth (%)	24.0	22.7	21.2	17.8	22.5	17.0	22.5	22.0
of which CASA Dep	1,646.2	1,984.9	2,363.1	3,091.5	3,430.9	3,912.0	5,134.0	6,415.3
Growth (%)	17.2	20.6	19.1	30.8	11.0	14.0	31.2	25.0
Borrowings	394.4	452.1	849.7	740.3	1,231.0	1,170.9	1,683.2	2,022.0
Other Liabilities & Prov.	413.4	324.8	367.3	601.0	457.6	551.1	661.3	793.6
Total Liabilities	**4,916.0**	**5,905.0**	**7,408.0**	**8,638.4**	**10,639.3**	**12,445.4**	**15,353.0**	**18,574.3**
Current Assets	395.8	363.3	389.2	489.5	1,229.2	813.5	1,507.0	1,834.9
Investments	1,209.5	1,516.4	1,958.4	2,144.6	2,422.0	2,905.9	3,574.2	4,432.0
Growth (%)	8.4	25.4	29.1	9.5	12.9	20.0	23.0	24.0
Loans	3,030.0	3,655.0	4,645.9	5,545.7	6,583.3	8,194.0	9,996.7	12,255.9
Growth (%)	26.4	20.6	27.1	19.4	18.7	24.5	22.0	22.6
Fixed Assets	29.4	31.2	33.4	36.3	36.1	40.3	43.6	48.0
Other Assets	251.2	339.1	381.0	422.3	368.8	491.7	231.4	3.3
Total Assets	**4,916.0**	**5,905.0**	**7,408.0**	**8,638.4**	**10,639.3**	**12,445.4**	**15,353.0**	**18,574.3**

Asset Quality

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
GNPA	29.9	34.4	43.9	58.9	86.1	112.2	126.6	163.8
NNPA	8.2	9.0	13.2	18.4	26.0	32.1	36.5	42.7
GNPA Ratio	1.0	0.9	0.9	1.1	1.3	1.4	1.3	1.3
NNPA Ratio	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3
Slippage Ratio	1.9	1.6	1.6	1.5	2.1	1.8	1.7	1.7
Credit Cost	0.6	0.5	0.5	0.6	0.8	0.9	1.0	1.0
PCR (Excl Tech. write off)	72.6	73.9	69.9	68.7	69.8	71.4	71.2	73.9

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	**10.3**	**10.1**	**10.1**	**9.6**	**9.4**	**9.6**	**9.7**	**9.6**
Avg. Yield on loans	11.7	11.1	10.8	10.2	10.3	10.5	10.8	10.6
Avg. Yield on Invt	7.8	7.2	8.1	7.8	7.2	7.6	7.4	7.4
Avg. Cost-Int. Bear. Liab.	**6.2**	**5.8**	**6.0**	**5.5**	**4.9**	**5.2**	**5.4**	**5.3**
Avg. Cost of Deposits	5.7	5.7	5.9	5.3	4.6	5.0	5.3	5.2
Interest Spread	**4.1**	**4.3**	**4.3**	**4.2**	**4.5**	**4.4**	**4.3**	**4.2**
Net Interest Margin	**4.6**	**4.6**	**4.6**	**4.6**	**4.4**	**4.4**	**4.4**	**4.3**
Capitalization Ratios (%)								
CAR	16.1	16.8	15.5	14.6	14.8	17.1	16.4	15.3
Tier I	11.8	13.7	13.2	12.8	13.3	15.8	15.4	14.5
Tier II	4.3	3.1	2.3	1.8	1.6	1.3	1.0	0.8
Business and Efficiency Ratios (%)								
Loans/Deposit	82.5	81.1	85.0	86.2	83.5	88.8	88.4	88.8
CASA Ratio	44.8	44.0	43.2	48.0	43.5	42.4	45.4	46.5
Cost/Assets	2.4	2.4	2.3	2.3	2.1	2.1	1.9	1.8
Cost/Total Income	45.6	44.6	44.3	43.4	41.0	39.7	37.6	36.0
Cost/Core Income	45.8	47.0	46.7	45.8	42.2	41.1	39.0	37.3
Int. Expense/Int.Income	55.1	53.8	54.2	52.2	50.0	51.3	51.8	51.7
Fee Income/Total Income	27.2	24.4	23.6	21.8	22.8	21.6	20.4	19.9
Non Int. Inc./Total Income	30.0	28.7	28.0	27.1	27.5	26.8	25.5	24.7
Empl. Cost/Total Expense	34.7	34.0	33.6	32.9	30.0	29.7	29.3	28.9
Investment/Deposit	32.9	33.6	35.8	33.3	30.7	31.5	31.6	32.1

Valuation

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
RoE	21.3	19.4	18.3	17.9	17.9	16.5	16.1	17.2
RoA	1.9	1.9	1.8	1.8	1.8	1.8	1.9	1.9
RoRWA	2.6	2.7	2.5	2.4	2.4	2.4	2.5	2.4
Book Value (INR)	181.3	247.4	287.3	335.9	409.6	547.9	624.3	720.6
Growth (%)	19.2	36.5	16.2	16.9	22.0	33.8	13.9	15.4
Price-BV (x)				**7.2**	**5.9**	**4.4**	**3.9**	**3.4**
Adjusted BV (INR)	178.9	244.9	283.7	330.8	387.8	522.8	594.2	683.9
Price-ABV (x)				**7.3**	**6.2**	**4.6**	**4.1**	**3.5**
EPS (INR)	35.3	40.8	48.6	56.8	67.8	79.3	94.4	115.6
Growth (%)	25.0	15.3	19.3	16.7	19.4	16.9	19.1	22.4
Price-Earnings (x)				**42.6**	**35.6**	**30.5**	**25.6**	**20.9**
Dividend Per Sh (INR)	6.9	8.0	9.5	11.0	15.7	16.5	18.1	19.3
Dividend Yield (%)				**0.5**	**0.6**	**0.7**	**0.7**	**0.8**

E: MOFSL Estimates

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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